Case Studies in DoD Contract Consolidations

A Study for the Office of Small and Disadvantaged Business Utilization

AQ001R1

December 2000

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Executive Summary

Many small businesses consider contract consolidation a threat to their existence. When government requirements—in this case, those of the Department of Defense (DoD)—are combined into a single, larger requirement that small businesses believe they cannot perform, those businesses look for relief. In two meetings with the House of Representatives Small Business Committee in 1999, they did just that. Concerned committee members asked DoD to study the effect of consolidations on small business. DoD pledged to perform the study and report back to the committee in six months.

DoD then asked the Logistics Management Institute (LMI) to investigate the problem and prepare a report by the fall of the year 2000. This report is presented in fulfillment of that pledge.

In the absence of direct data on the extent and effects of consolidations, we investigated 10 randomly[1] selected instances from a pool of examples from the Military Departments and the Defense Logistics Agency. Although the findings regarding them are not statistically significant, those 10 cases indicated some clear and pronounced trends that can be safely used to guide future DoD actions.[2]

"Contract consolidation" and "bundling" are two important terms that require clarification for the purposes of this study. To begin with, they are not synonymous.

[1] Unrestricted random sampling was used to select a probability sample of consolidated contracts for each Military Department and the Defense Logistics Agency. This approach afforded each contract within the population an equal probability of being selected.

[2] No statistics are available to indicate what the true size of the population of contract consolidations may be. Furthermore, the set of contract consolidations identified for this study by the Military Departments and the Defense Logistics Agency, and from which the LMI study sample of 10 cases was selected, is not alleged to be either complete or exhaustive. A randomly selected sample of only 10 items from a population of unknown (but arguably quite large) size cannot, as a matter of statistical principles, render any findings or conclusions that can be characterized as significant—that is, representative of the true state of nature in the underlying population—to any level of confidence.

Here's why:

Contract consolidation is the broader of the two terms. A 1996 DoD memorandum[3] defines it as the "… consolidation of several contracts or requirements into a single larger contract.…" Therefore, a consolidated contract must meet two criteria. It must

- be consolidated from several contracts or requirements and
- result in one contract.

The definition of a bundled contract under the Small Business Reauthorization Act is more complex. The Small Business Reauthorization Act states that a bundled contract

- consolidates two or more procurement requirements,
- involves a previous contract performed by small business,[4]
- results from a solicitation for one contract, and
- is unsuitable for award to a small business.[5]

A consolidated contract can be suitable for award to a small business—when it is unsuitable it is a bundled contract.

We found that most of the consolidated contracts we scrutinized did not meet the statutory definition of bundling. We found some instances in which small businesses were precluded from participating and other instances in which DoD actions mitigated some potential negative effects on small businesses.

DoD depends upon private business—both large and small—for most products and services it needs to perform its mission. For example, last year DoD made purchases totaling $112.2 billion for products and services from private domestic business.

Of the $112.2 billion in DoD purchases from private domestic businesses in FY99, $88.6 billion was acquired from large businesses while $23.6 billion, or 21 percent, came from small businesses. For that same year, DoD has identified

[3] Deputy Secretary of Defense John White revised DoD's policy on contract consolidation in an October 28, 1996 memorandum.

[4] The legislation states that a "bundled contract" is composed of "separate smaller contracts." "15 U.S.C. §632 (o)(3) Separate smaller contract—The term 'separate smaller contract,' with respect to a bundling of contract requirements, means a contract that has been performed by one or more small business concerns or was suitable for award to one or more small business concerns."

[5] "Unsuitable for award," under the Small Business Act, refers to the diversity, size, or specialized nature of the elements of the performance specified; the aggregate dollar value of the anticipated award; the geographical dispersion of the contract performance sites; or any combination of the latter factors.

5,760 separate large business firms, 18,581 small businesses, and 4,677 small disadvantaged businesses that received DoD prime contract awards exceeding $25,000. The percentage of work going to small business and the number of small business firms working for DoD have both remained relatively unchanged over the past five years.

Public policy has always required that the federal acquisition process be open to all qualified sources, affording them an opportunity to participate in government work. Recent legislative changes have encouraged agencies to streamline that process through techniques such as the use of purchase cards and greater utilization of multiple-award indefinite-delivery/indefinite-quantity (IDIQ) contracts under which multiple sources are competitively established to make offers on future requirements—as well as by raising the dollar limit for the use of purchasing procedures.

At the same time that these streamlined and more commercial-like procedures have been taking hold, DoD has been feeling the effects of other influences. Organizational and base closures and realignments, outsourcing of commercial activities, and—especially—downsizing of the acquisition work force have all been occurring.

Contract consolidation can produce greater administrative efficiencies, for both DoD and its contractors. Yet, no definitive way now exists to identify when contract consolidation occurs, whether it actually confers efficiencies, and how it affects small and large businesses. And we have no way of determining whether consolidations are increasing in the aggregate across DoD.

Our study attempted to identify instances of contract consolidation and to conduct case studies of a limited but representative (in an inclusionary but not statistical sense) number of those consolidations. On the basis of these case studies, we have sought to observe the

- effect of consolidation on small business participation in DoD work,
- benefits of consolidation to DoD,
- methodology for identifying those benefits and weigh them against any reduction in small business opportunities, and
- techniques employed to mitigate any negative effects on small businesses.

To that end, we compiled as inclusive a pool of potential contract consolidations as we could develop from the following sources:

- The Small Business Administration contract bundling reporting system (ALERT).

- Cases known to the DoD Small and Disadvantaged Business Utilization representatives.

- Contract actions we submitted to the associated buying offices on the basis of two indicators of consolidation: increased contract values and increased utilization of IDIQ awards. Buying offices were asked to identify contracts that had been consolidated or were in the process of being consolidated.

The pool of potential consolidations consisted of 718 contracts or solicitations. Ten cases of consolidation were drawn at random from that group—three from each Military Department and one from the Defense Logistics Agency (DLA). These cases had the following characteristics: 9 of the 10 contracts were for services and 1 was for a product; 4 were definitive contracts while 6 were IDIQ contracts; the lowest contract value was $100,000 while the highest has a potential value of $1 billion; and 5 were valued between $1.5 million and $7.5 million and 3 between $65 million and $87 million. The contracts selected ranged from those for routine construction requirements to those for the more complex requirements for integrating a satellite control network.

As a result of site visits by the study team and document reviews at the contracting organizations, we found the environments shown in Table ES-1 before and after consolidation.

- In the first three cases in Table ES-1, small businesses were awarded consolidated contracts by the Air Force, Army, and DLA that were held previously by other small businesses. These contracts were for routine construction services and jet engine tube assemblies. The Army award went to a large business in a subsequent recompetition of the consolidated requirement.[6] Since federal regulations do not require subcontracting plans from small business prime contractors, no subcontracting data were available for these contracts.

- In the fourth case, a large business won a consolidated contract from the Navy to operate and maintain training ranges. This contract was previously performed by another large business, but work that could have been included in the consolidated contract was “broken out” for a small disadvantaged business incumbent. After consolidation, both small and large businesses are participating as subcontractors under this prime contract.

- In cases five and six, work previously awarded by the Army to numerous small and large businesses was consolidated into larger multiple-award contracts held by both small and large businesses. These firms provide field upgrades and maintenance for tactical vehicles as well as engineering and logistical support services. Set-asides and reservations were used to

[6] Small and large businesses are participating as subcontractors under the recompeted prime contract.

ensure small business participation. After consolidation, small and large businesses are participating as subcontractors under the prime contract.

Table ES-1. Pre- and Post-Consolidation Recipients of Ten Selected Contracts

	Military Service or agency	Product or service	Before consolidation–contract awarded to	After consolidation–contract awarded to:	After consolidation–subcontract[a] awarded to:
1.	Air Force	Routine construction	SB	SB	N.A.[b]
2.	Army	Routine construction	SB	SB (recompeted award to LB)	N.A.[b]
3.	DLA	Jet engine tube assemblies	SB	SB	N.A.[b]
4.	Navy	Operation and maintenance of training ranges	LB	LB	SB & LB
5.	Army	Field upgrades/maintenance of tactical vehicles	SB & LB	SB & LB	SB & LB
6.	Army	Engineering and logistical support services	SB & LB	SB & LB	SB & LB
7.	Navy	Housing maintenance	SB & LB	LB	SB & LB
8.	Navy	Technical and financial management support services	SB & LB	LB	SB & LB
9.	Air Force	Operation and maintenance of communication systems	SB & LB	LB	SB & LB
10.	Air Force	Satellite control network integration	SB & LB	LB	SB & LB

Note: SB = small business; LB = large business; N.A. = information not available.

[a] Standard Form 294, the primary data collection form for subcontracting, does not document the number of small businesses involved in subcontracting.

[b] Federal regulations do not require subcontracting plans from small business prime contractors.

- In the seventh case, awards previously made to small and large businesses for Navy housing maintenance were consolidated, and an award was made to a large business. However, not all of the requirement was consolidated, and some small business work was broken out. After consolidation, small and large businesses are participating as subcontractors under the prime contract.

- Finally, in one Navy contract (case 8 in the table) and two Air Force contracts (cases 9 and 10), we found contract bundling. In all three cases, individual contracts had been awarded to both small and large businesses, but for a variety of reasons, consolidation produced requirements that were "unsuitable" for small business participation. After consolidation, all three contracts had small and large businesses participating as subcontractors.[7]

Before the consolidation effort, small businesses were involved as prime contractors (but not necessarily as the exclusive prime) in 9 of the 10 cases. Following consolidation, small businesses were selected as prime contractors in 5 of the 10 cases. The consolidated work involved fewer prime contractors and culminated in larger and longer contracts. In 8 of the 10 cases, the number of prime contracting opportunities decreased from multiple contractors to a single prime contractor.

Three of the 10 cases of consolidation constituted "bundling," since the consolidated requirement was unsuitable for award to small business. We noted some, but only limited, evidence of lower prices or reduced acquisition cycle time following consolidation.

In some instances, contracting activities instituted explicit actions to mitigate potential negative impacts on small business. Those actions included insertion of aggressive small business subcontracting goals in the large business's prime contract, recognition of subcontracting plans as a source-selection criterion, use of award fees for meeting or exceeding small business goals, and breakout of otherwise consolidated requirements for performance by small businesses. However, the process for ensuring contractor compliance with subcontracting goals still needs improvement.

DoD uses consolidated contracts to improve customer satisfaction, simplify program management, compensate for reductions in the acquisition work force, and gain efficiencies that reduce other costs of awarding and administering contracts. A benefit analysis is critical to ensuring that inappropriate consolidations that do not substantially improve efficiency for DoD or that cause considerable loss of opportunity for small business do not occur. We found no uniform methodology or guidelines for performing a benefit analysis to support consolidation decision-making or to validate realized consolidation savings. Consequently, when decisions regarding consolidation are made, care must be taken that they are made in a consistent manner.

[7] See Appendix B for a detailed summary of each case.

Contents

Chapter 1
Introduction

Study Background

This Logistics Management Institute (LMI) report resulted from the House of Representatives Small Business Committee hearings on contract "bundling" conducted on August 4 and November 4, 1999.[1,2]

Two years before those hearings, Congress enacted the Small Business Reauthorization Act (SBRA) of 1997 (P.L. 105-135).

SBRA's major elements include

- a definition of contract bundling, [3]
- a requirement that agencies show *measurably substantial benefits* to justify bundling,
- a provision for small business joint venture arrangements, and
- a process for the Small Business Administration (SBA) to initiate appeals to up to the agency-head level.[4]

At the House hearings, committee members expressed concern about the effects of large contract consolidations on the Department of Defense's (DoD's) ability to meet its small business goals. During both hearings, committee members took note of the testimony of several dissatisfied small business representatives who argued that small businesses have neither the resources nor the experience to compete for the larger, consolidated contracts. The small business representatives further argued that contract bundling would put thousands of small firms out of business and decrease the quality of service to the federal government.

[1] The August 4th hearings are documented at www.house.gov\smbiz\hearings\106th\1999\990804

[2] The November 4th hearings are documented at www.house.gov\smbiz\hearings\106th\1999\991104

[3] Appendix A presents definitions of consolidation and bundling as used in this report.

[4] In August 2000, the House Committee introduced legislation that would require the SBA Administrator to determine whether contract bundling actually achieves the savings that federal agencies assume. The bill would also require the Administrator to maintain a database for tracking the number of small businesses that are displaced as prime contractors because of contract bundling.

DoD representatives also testified at both hearings, citing the following benefits from consolidating contracts:

- DoD management efficiencies
- Economies of scale
- Contractor management efficiencies.

At the November hearing, the Principal Deputy Under Secretary of Defense for Acquisition, Technology and Logistics testified that DoD's policy for consolidating contracts provides guidance for ensuring small business participation in DoD contracts and that DoD's contracting goal is to strike the appropriate balance between the greater efficiency that contract consolidation might bring and the need to offer small business a fair opportunity to compete for government business.

To help determine the impact of contract consolidation on small businesses, DoD asked the committee for assistance in developing study parameters. The request for congressional assistance came with a pledge from DoD to conduct a study and deliver a report within six months. This report fulfills that pledge.

Study Approach

The study that was conducted had six specific objectives:

- Determine the effect of contract consolidations on small businesses as prime contractors and as subcontractors.
- Identify any projected benefits to DoD from contract consolidations.
- Single out benefits achieved to date by DoD as a result of consolidations.
- Assess the effect of consolidations on competition.
- Review the extent to which actual practice faithfully implements DoD policy.
- Identify best practices used in evaluating and executing contract consolidations.

Our study, which was designed to meet those objectives, entailed the following eight steps:

- Reviewing the legislative history of contract consolidation and prior and existing DoD policies on it.
- Conducting interviews with small business trade associations and DoD Small and Disadvantaged Business Utilization (SADBU) representatives

from the Military Departments and the Defense Logistics Agency (DLA) to identify consolidation cases known to them.

- Conducting a data call to the Military Departments and DLA to identify additional cases.
- Compiling a pool of contracts that potentially meet the study's definition of consolidation.
- Selecting 10 representative cases from the Military Departments and DLA.
- Preparing interview guides for conducting detailed case studies.
- Conducting field reviews of the 10 cases to determine the effects of contract consolidations on small businesses.
- Assessing the findings.

REPORT CONTENTS

The rest of this report first describes how we identified the pool of candidate cases of contract consolidations. Specifically, Chapter 2 presents the methodology employed to pinpoint potential consolidations. Chapter 3 describes the 10 cases we subjected to intensive review, and it then describes our findings regarding methodologies employed and outcomes from those cases. Chapter 4 presents generalized findings regarding the processes employed and the policies followed by practitioners in the field. More detailed information is presented in three appendixes.

Chapter 2
Identifying Contract Consolidations

AGGREGATE DATA TRENDS

Number and Dollar Value of Awards

We initially examined data available from the Defense Contracts Action Data System—the DD-350 system—to detect trends in contract consolidations and their impacts on small business. The DD-350 data we first examined are aggregate in nature and are broken out by type of business and by dollar value.

Consolidation should manifest itself at this high level of aggregation in fewer awards and/or awards with increased average value. Shifts in market share from small to other (predominately large) types of business would indicate an adverse effect on small business.

The DD-350 system captures information on all contract actions over $25,000 and identifies (among other things) the contract action's dollar value and the type of contractor performing the work. A separate summary data collection effort occurs for the 95 percent of all actions that are under $25,000, providing total value and action count for the aggregation of all actions of less than $25,000.[1]

Table 2-1 displays the value of awards and the associated number of contract actions for business firms for work in the United States. We have subdivided the business firms into small business and other business firms. Contract awards with other types of contractors (such as educational and nonprofit institutions) or for work outside the United States and interagency arrangements account for the difference between the total for all procurements (first row of Table 2-1) and awards

[1] Since the aggregate data used for this chapter's trend analysis are derived from a database capturing contract actions over $25,000 only, the dollar volume and transaction count for actions below that figure are not included in the overall data. While the transaction count for actions under $25,000 is quite large, their total dollar value is comparatively small. Consequently, instances of consolidation in this portion of the annual procurement activity should likewise be quite small. Moreover, instances of consolidation should be especially small with respect to acquisitions made with purchase cards (DoD procurements made using purchase cards ranged from slightly over $795 million in FY95 to more than $4.5 billion in FY99). Unfortunately, no descriptive data regarding the business size or status of the firms receiving actions under $25,000 are readily available. However, because of the small business reservation for actions between the micro-purchase threshold ($2,500) and the simplified acquisition threshold ($100,000), we believe that such statistics, if available, would show a significant level of participation by small businesses in the years since the acquisition reforms of FASA (1994) and Clinger-Cohen (1996). Therefore, it appears that the aggregate data reflect the extent of small business participation at the prime contractor level.

to business firms for work in the United States. The latter represent the potential DoD market for small business.

The bottom of Table 2-1 presents summary statistics on the percentage of work going to small business and the average size of awards over $25,000. The statistics at the bottom of the table are indicators, at the aggregate level, of trends in consolidation and their effect on small businesses. Table 2-1 indicates the following trends:

- The dollar value of all DoD procurements (in then-year dollars) remained relatively flat at about $130 billion over the period FY95 through FY99, representing, in terms of constant (real) dollars, a declining trend.
- Awards to all business firms for work in the United States also remained relatively constant, at about $110 billion, from FY94 through FY99.
  - The total dollar value of awards under $25,000 declined from $11.5 billion in FY95 to $8.6 billion in FY99. The number of individual actions in this category declined significantly, from 8.9 million in FY95 to 4.8 million in FY99, as DoD customers increasingly used purchase cards to purchase directly from vendors. (Purchase-card transactions are not included in the DD-350 system data.)
  - The total dollar value of awards over $25,000 increased slightly, from $98.5 billion in FY95 to $103.6 billion in FY99, while the number of procurement actions in this category remained relatively constant over the period at about 225,000 actions annually.
- The relative balance in awards to all business firms for work in the United States between small business and “other” business remained relatively constant over the five-year period. Small business received between 21 and 23 percent of the dollar value of awards made to all businesses for work in the United States.
- The percentage of all actions performed by small businesses declined from 55 percent in FY94 to 49 percent in FY99. That decline is explained by the decline in the number of actions under $25,000 going to small businesses (from 5.9 million in FY94 to 2.3 million in FY99), which in turn is largely due to the great increase in the use of purchase cards. Because purchase-card transactions are not reported in the DD-350 statistics, we cannot determine how many purchase-card actions went to small businesses over the period.
- The total number of actions over $25,000 grew slightly over the period, for both small business and large business.

Table 2-1. DoD Awards to Business Firms for Work in the United States, by Type of Firm[a]

	FY99		FY98		FY97		FY96		FY95	
	$B	Actions (millions)	$B	Actions (millions)	$B	Actions (millions)	$B	Actions (millions)	$B	Actions (millions)
Total all procurements	$135.20	—	$128.80	—	$128.40	—	$132.20	—	$131.40	—
To business firm for work in U.S.	$112.20	4.994	$109.90	5.499	$106.90	6.741	$109.50	7.532	$110.00	9.108
Actions of $25,000 or less	$8.60	4.762	$9.10	5.272	$9.80	6.512	$10.70	7.297	$11.50	8.893
Actions over $25,000	$103.60	0.232	$100.60	0.227	$97.10	0.229	$98.80	0.235	$98.50	0.214
To small business	$23.60	2.463	$23.00	2.922	$24.50	3.863	$25.40	4.507	$25.30	6.028
Actions of $25,000 or less	$3.70	2.366	$4.20	2.826	$4.80	3.766	$5.20	4.41	$6.30	5.94
Actions over $25,000	$19.90	0.096	$18.80	0.0955	$19.70	0.0969	$20.20	0.0971	$19.00	0.0891
To other than small business	$88.60	2.531	$86.60	2.578	$82.40	2.878	$84.10	3.025	$84.80	3.079
Actions of $25,000 or less	$4.90	2.395	$4.80	2.446	$5.00	2.746	$5.50	2.887	$5.20	2.953
Actions over $25,000	$83.70	0.135	$81.70	0.131	$77.40	0.132	$78.60	0.138	$79.60	0.125
Small business percentage of all business firm work in U.S.	21%		21%		22.90%		21%		22.90%	
Average action value for award over $25,000	$0.449		$0.443		$0.424		$0.420		$0.460	
To other than small business	$0.620		$0.624		$0.588		$0.569		$0.637	
To small business	$0.207		$0.197		$0.203		$0.208		$0.213	

Sources: DoD, Washington Headquarters Services, Directorate for Information Operations and Reports: number of procurement actions from Summary of Procurement Actions, Format Sum Report, and award volumes from DoD Prime Contract Awards by Type of Contractor (Table 1) PO3 Report.

[a] Numbers may not add up because of rounding.

Note: Purchase-card transactions are excluded.

On the basis of these observations, we concluded that the aggregate statistics offer little evidence that consolidation has occurred. The dollar value of contract actions awarded to small businesses has remained at about 21 to 23 percent, with no discernable trend. For awards over $25,000, where most of the dollar value occurs, the dollar value awarded to small businesses has remained relatively constant and the number of awards to small businesses has also stayed nearly constant. Finally, we found no evidence that the average value of individual awards to small or other types of businesses has increased over the period, and such an increase would have occurred with contract consolidation.

Prime Contractors with One or More Actions over $25,000

The DD-350 reporting system can also be used to identify the number of distinct firms with at least one contract action over $25,000. They are counted as falling into one of 12 business categories. Table 2-2 displays the type of business and the number of firms involved for six fiscal years.

Table 2-2. Number of DoD Prime Contractors with One or More Actions over $25,000, by Type of Business, FY94–FY99

Type of business	FY99	FY98	FY97	FY96	FY95	FY94
Foreign Military Sales/ Interagency	178	2,361	2,686	3,335	3,086	2,913
Small disadvantaged business	4,677	4,408	4,611	4,468	4,215	3,900
Women-owned business	3,100	2,726	2,700	2,657	2,179	2,113
Other small business	18,581	17,652	18,742	18,945	16,163	16,106
Large business	5,760	5,021	5,339	5,539	4,972	4,836
Workshop	368	369	404	336	285	276
Hospital	21	17	19	9	6	5
Foreign concern/entity	3,862	3,263	3,807	3,285	2,750	2,748
Domestic firm (outside U.S.)	419	352	408	358	377	369
HBCU/MI	53	54	48	79	56	74
Other educational	390	507	516	538	545	520
Other nonprofit	378	410	491	514	420	399

Note: HBCU/MI = Historically Black Colleges and Universities/Minority Institutions.

A firm can be listed in more than one category, depending on its status for a particular transaction. For example, a small disadvantaged business that is also a women-owned business would be included in two categories: women-owned business and a small disadvantaged business. Consequently, it is not valid to add categories or to total all the categories.

With that caveat in mind, we can see that the table does display a relatively constant to somewhat increasing count of small businesses and small disadvantaged businesses awarded DoD contracts (actions over $25,000). While in FY94, 16,106 small business firms were DoD suppliers for contracts over $25,000, that number had grown to 18,581 by FY99. A similar trend can be observed for small disadvantaged businesses (from 3,900 in FY94 to 4,677 in FY99). These trends are inconsistent with the hypothesis that contract consolidation has had an adverse effect on small business participation in DoD awards of contracts over $25,000.

In summary, if consolidation were occurring, we would expect to see a trend toward awards with increased average dollar value; no such trend has been observed in the aggregate data. If small businesses were being adversely affected by current trends, fewer of those businesses would be participating in the DoD marketplace. However, as we have seen, the reverse is the case for small businesses with at least one contract over $25,000.

To discern where consolidation is or might be occurring, we need to examine these data at a more detailed level. The following section discusses these trends at the level of commodity and service groups.

DATA CALLS

A key portion of our study entailed identifying potential consolidated contracts for detailed case study analysis. Many of the candidates were identified through two data calls to the Military Departments and the Defense agencies. The first data call was conducted by the Office of the Secretary of Defense (OSD) SADBU office in March 2000, before LMI became involved in the task. The OSD SADBU office asked that the Military Departments and Defense agencies review their contracts and identify any that had been consolidated. In the first data call, 208 candidates were identified.

After LMI was selected to perform the study, the study approach was refined to define more specifically what constitutes a consolidated contract. A second data call to the Services and DLA was then issued; it included various definitions of contract consolidation and bundling. Rather than issuing a blanket request asking all DoD contracting activities to identify all of their consolidated contracts, LMI used the approach of analyzing historical DoD contract award data in an attempt to identify potential consolidated contracts and thereby narrow the scope of the second data call to more manageable proportions. The second data call took place in late June 2000; it resulted in the identification of nearly 450 additional candidate contracts.

Finally, on the basis of a review of SBA’s contract bundling reporting system and cases known to the OSD SADBU office and representatives of small business trade associations, we identified additional cases.

METHODOLOGY

For every contract action exceeding $25,000, DoD contracting officers are required to prepare an individual contract action report on DD Form 350. The report covers a large number of data elements, including contractor name, award amount, type of contract, business size, competitive status, product or service category, place of performance, the contracting office that awarded the contract, and numerous other data. The data are collected from contracting offices through various automated feeder systems and transmitted to Washington Headquarters Services' Directorate for Information Operations and Reports.

For comparative purposes, we used FY85 data, since that was the year with the highest dollar obligations ($163 billion); FY99 data because that was the most recent full fiscal year for which data were available; and FY92 data, since that is the midpoint between 1985 and 1999. The time frame available for our study precluded a more thorough examination of the intervening years.

No data elements are available in the DD-350 system to specifically identify consolidated/bundled contracts.[1] Furthermore, no data elements are available to describe the linkage between a contract and any predecessor contracts, which is a key to understanding whether a contract is consolidated. That information can be ascertained at present only by reviewing the actual contract file and interviewing the contracting officer and other contracting office personnel who know the practices used at their contracting activity.

At best, the contracting data can be used to make a list of possible consolidation candidates based on other data elements or combinations of elements. Unless the team conducts a case study of each possible contract, a data call still relies on the individual contracting activity to indicate whether any of the candidates are, in fact, consolidated contracts. The obvious limitation of this approach is that different people will have different interpretations of what constitutes consolidation.

For our approach, we elected to review each of the Federal Supply Groups and service categories to determine whether any areas were especially likely to contain consolidation candidates. The higher-level service and product groupings that we chose to examine consisted of 102 individual product and service categories.

To generate lists of potential consolidated contracts, we selected two variables for analysis: average contract award value for definitive contracts,[2] and a count of the

[1] Recent legislation (the Small Business Reauthorization Act) calls for the capturing of "data regarding bundling of contract requirements when the contracting officer anticipates that the resulting contract price, including options, is expected to exceed $5,000,000."

[2] Definitive contracts are for a fixed quantity of products or services. Within DoD, they are identified by the letter "C" in the ninth position of the contract number.

number of unique indefinite-delivery/indefinite-quantity (IDIQ) awards[3] within each category of products or services. We compared results from FY85, FY92, and FY99. For comparing the 1999 average contract values with 1985 and 1992 data, we adjusted the 1999 values to account for the general effects of inflation by using the DoD Comptroller's deflators for Defense procurement. In that way, we were able to see what the FY99 averages would have been in 1985 and 1992 dollars, and compare them with the actual 1985 and 1992 averages.

Our rationale for selecting the two variables above is as follows: We hypothesized that if more contract consolidations were occurring, the average value of definitive contracts should be increasing over time. We also know from experience that IDIQ contracts are being used more often by contracting activities and that they are potential vehicles for contract consolidation. However, average IDIQ order value is not an appropriate measure—because IDIQ contracts allow for numerous individual orders to be placed against the contract, average order value could be greater, smaller, or about the same over time. A better indicator is simply the number of unique IDIQ contracts that are being issued within each product or service category.

Other contracting data variables could be analyzed to identify possible consolidation candidates. For example, contracts and/or orders that are coded with multiple product or service codes, or that indicate multiple places of performance, could also be the result of consolidation. These variables, however, have some limitations. Multiple codes would most likely be found only on delivery and task orders, since the coding structure only permits one code to appear on any single DD Form 350. This would tend to eliminate definitive contracts from the analysis, since the contract would likely have a single entry.[4] Also, the choice of a product or service code is more subject to the contracting officer's judgment and accuracy than are entries indicating award dollar values or number of IDIQs. Again, the time constraints of this study prevented us from examining these other data elements; however, we believe that the variables we selected would tend to capture many of the same contracts that would have been identified by an analysis of the other data elements.

We limited our analysis to the Army, the Navy (including the Marine Corps), the Air Force, and DLA. Together, the Military Departments and DLA account for more than 85 percent of the DoD contract dollars obligated in FY99. To make the second data call more manageable for the Military Departments and DLA, we

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[3] IDIQ contracts do not specify the exact amount of products or services to be delivered and/or time of performance. Delivery orders (for products) and task orders (for services) are issued by the contracting officer to obtain performance under these contracts. Only the individual delivery or task orders that obligate (or deobligate) funds are shown in the contracting data, not the entire contract value itself. DoD IDIQ delivery and task orders are identified with a "D" in the ninth position of the contract number. The individual delivery and task orders are distinguished from each other by the addition of a four-position order number used in conjunction with the basic contract number.

[4] The exception would be definitive contracts that are later modified to include additional work.

also limited the definitive contracts to those over $250,000, and the number of unique IDIQ contracts to 25 or greater within a product or service category. For each Service and DLA, we compared FY99 data with FY85 and FY92 data. If either the average definitive contract value or the number of unique IDIQ awards exceeded the 1985 and/or 1992 values by 10 percent or more, we included that category as a potential consolidation area.

After identifying the possible consolidation areas for the Departments and DLA, we identified the contracting activities that collectively were awarding about 75 percent of the total dollars obligated in those categories and created lists of the FY99 definitive and IDIQ contract actions for each contracting activity. We excluded from consideration those contracting activities generating fewer than 10 contracts. We prepared spreadsheets of the potential contract consolidations and forwarded them to the OSD SADBU office, which distributed them to the Departments and DLA, asking that they identify consolidated contracts on the lists, as well as add any that they were aware of but were not on the lists. This procedure resulted in identifying nearly 450 additional potential contract consolidation candidates.[5]

[5] On the basis of the results received, we suspect that some activities were more willing to identify consolidated contracts than others, but without independent verification of candidate contracts, we have no way of knowing whether our list of consolidated contracts is indicative of the actual amount of contract consolidation that is occurring.

Chapter 3

Consolidation Cycle Findings

For purposes of summarizing our review findings, we define the consolidation cycle as consisting of the following elements:

- Preconsolidation environment
- Rationale for consolidation
- Implementation of the consolidation
- Postconsolidation environment.

This chapter presents the 10 cases selected for detailed review. The results of those reviews are organized in terms of what we refer to as the "consolidation cycle,"[1] which describes how and why consolidations are accomplished, the rationale for them, and the results achieved as seen by comparing the preconsolidation and postconsolidation environments.

The 10 Cases Examined

The 10 cases examined were drawn from the pool of 718 potential contracts or solicitations provided by the Services and DLA or otherwise identified. They were selected randomly, three each from submissions from each of the Military Departments (Army, Navy, and Air Force) and one from DLA (see Table 3-1). Six of the 10 consolidations are IDIQ contracts, and the remaining four are definitive contracts. Award dates for those contracts extend from 1996 through 1999. Eight contracts are still active, while two are complete.

An examination of the "Description" column in Table 3-1 reveals that 9 out of the 10 contracts are for services rather than for products. They range from routine construction requirements to complex requirements for integrating a satellite control network. The table's last column consists of "program designation," as we refer to it throughout this report.

[1] See Appendix B for a detailed summary of consolidation cycle findings for each case study.

Table 3-1. Summary of Contract Cases

	Service/ agency	Contract number/ value[a]	Contract status	Command/ organization	Description	Designation in this report
1	Army	DAAE07-98-D-T063[b] $1 billion	Active	AMC TACOM Warren, MI	Field upgrades/maintenance of tactical vehicles	Focused Sustainment Program
2	Army	DAAE07-99-D-S008[b] $6.3 million	Active	AMC TACOM Warren, MI	Engineering and logistics support services for program offices	DSA Omnibus Program
3	Army	DABT11-96-D-0005[b] $7.5 million	Completed	Fort Gordon Augusta, GA	Noncomplex construction tasks	JOC Program
4	Navy	N0024-99-C-0008[c] $88.6 million	Active	FISC–San Diego, CA	Operation and maintenance of tactical training ranges	Training Range
5	Navy	N0039-99-C-3145[c] $3.4 million	Active	SPAWAR– San Diego, CA	FMS technical and financial management support services	FMS Support
6	Navy	N00187-95-D-650[b] $3.6 million	Active	PWC Norfolk, VA	Regional housing maintenance	Housing Maintenance
7	Air Force	F99650-99-D-0002[b] $1.5 million	Active	AFMC ESC Hanscom AFB, Bedford, MA	Noncomplex construction tasks	SABER
8	Air Force	F0471-96-C-0028[c] $64.7 million	Active	AFMC-SMC Los Angeles AFB, CA	Satellite control network integration contract	NIC
9	Air Force	FA2550-98-C-0007[c] $71 million	Active	50th Space Wing Schriever AFB, CO	Operation and maintenance of communications systems	Wing Communications Contract
10	DLA	SP0740-99-D-5574[b] $100 thousand	Completed	Defense Supply Center Columbus, OH	Tube assemblies for jet engine	IDPO

[a] The dollar value of active contracts represents their maximum potential value and includes future option amounts and/or maximum order amounts. The dollar value of completed contracts represents the actual dollar obligations against those contracts.

[b] IDIQ contract.

[c] Definitive contract.

Note: AFMC SMC = Air Force Materiel Command Space and Missile Center; AMC TACOM = Army Materiel Command Tank-Automotive and Armaments Command; DSA = Deputy for System Acquisition; FISC = Fleet Industrial Supply Center; SPAWAR = Space and Naval Warfare Systems Command; FMS = Foreign Military Sales; PWC = Public Works Center; AFMC ESC = Air Force Materiel Command Electronic Systems Center; IDPO = indefinite-delivery purchase order; JOC = Job Order Contracting; SABER = Simplified Acquisition of Base Engineer Requirements; AFB = Air Force Base; NIC = Network Integration Contract.

PRECONSOLIDATION ENVIRONMENT

As its name suggests, the preconsolidation environment for our study is the period prior to the process of contract consolidation. For the cases reviewed, the preconsolidation environment runs from 1987 through 1999. Two of the selected contracts are continuations of Service-wide consolidation initiatives dating from the late 1980s—the Air Force's Simplified Acquisition of Base Engineer Requirements (SABER) and the Army's Job Order Contracting (JOC) programs. The purpose of SABER is to expedite contract award of minor construction, maintenance, and repair projects. The SABER contract we reviewed provides for routine base-level construction requirements at Hanscom Air Force Base (AFB), Bedford, MA. In 1987, Hanscom AFB consolidated its requirements and awarded its first SABER contract to a large business, causing the displacement of several small businesses. JOC, an Army-wide program, also provides for simple base-level construction requirements, in this case at Fort Gordon, Augusta, GA. The consolidation and award of the JOC contract to a small business concern occurred in 1992. The remaining eight contracts were consolidated between 1996 and 1999.

Interviews also provided some evidence that program managers and contracting staffs in the preconsolidation environment were available to administer and monitor separate contracts. For example, the Navy's Training Range contract involved two contracting and administrative officers, managing two contracts for essentially the same services at two locations—Fallon Naval Air Station, NV, and Yuma Marine Corps Air Station, AZ. Both contracting officers worked in the same contracting office, and program staffs belonged to the same requiring activity. Moreover, two different divisions of a single contractor provided the services.

In 9 out of the 10 consolidated contracts, small businesses participated as prime contractors before consolidation.

RATIONALE FOR CONSOLIDATING[2]

During the interviews we tried to determine the rationale behind the actual contract consolidation decision. In 5 out of 10 cases, a reason given for consolidating contracts was senior management's desire to deal with one firm rather than with a multitude of companies. To some extent this rationale for consolidation stems from the reduction in the number of acquisition personnel available to monitor multiple contractors. However, in some cases the reason given for consolidation was simply a desire by program managers to have a single point of contact.

The government managers of the indefinite-delivery purchase order (IDPO), SABER, and JOC contracts all cited reduced acquisition cycle time as a rationale

[2] We conducted a literature search on the reasons for contract consolidation. The results are presented in Appendix C.

for consolidating contracts. The shorter cycle time permitted the JOC and SABER programs to meet end-of-year budget executions and improve customer services.

Other reasons cited were the elimination of duplication and the more effective use of existing resources (Training Range), and reorganizations and realignments (3 of the 10 cases). The housing maintenance consolidation was driven by a Navy-wide desire to regionalize contracts.

Table 3-2 presents the rationale behind the consolidation decision for each of the 10 case studies.

While not a direct cause for consolidations, work-force reductions highlighted the need to reduce or simplify procurement. At DLA's Defense Supply Center Columbus, the point was made that, between FY95 and FY00, the center's acquisition work force had declined from 4,200 to 2,650—a 37 percent reduction in 5 years. At the Army's Tank-Automotive and Armaments Command (TACOM), the procurement work force has fallen by 55 percent since 1992. At Fort Gordon's Directorate of Contracting, the procurement work force has declined from 60 positions to 29 positions over the 8 past years.

Table 3-2. Summary of Contract Consolidation Rationales

Service/command/ buying activity	Contract/ program name	Consolidation description	Rationale for decision
Army Materiel Command (AMC), Tank-Automotive and Armaments Command (TACOM)	Focused Sustainment Program	Numerous locally issued field-level maintenance and upgrade contracts replaced by 6 Army-wide IDIQ contracts.	Central oversight and configuration management of upgrade and maintenance program.
AMC/TACOM	DSA Omnibus Program	Individual program office support contracts combined into 6 centrally managed TACOM-wide multiple-award IDIQ contracts.	Central oversight and control of program management office support tasks. Reductions in procurement work force.
Army, Training and Doctrine Command, Signal Corps Center Fort Gordon	JOC	Numerous individual contracts for minor construction jobs replaced by a single competitively established IDIQ contract awarded to a small business. Subsequent competitive award to a large business.	Work simplification and reduced cycle time. Reductions in work force. Budget execution at end of fiscal year. Improved customer service.
Navy, Fleet Industrial Supply Center (FISC) San Diego	Training Range	2 contracts at 2 ranges combined into 1 contract. Note: 8(a) program.	Eliminate redundancy and allow better cross-utilization of equipment/personnel.

Table 3-2. Summary of Contract Consolidation Rationales (Continued)

Service/command/ buying activity	Contract/ program name	Consolidation description	Rationale for decision
Space and Naval Warfare Systems Command (SPAWAR) San Diego	FMS Support	Individual FMS support contracts for each office combined into 1 SPAWAR contract.	Functional consolidation following Base Realignment and Closure (BRAC)-directed move to San Diego.
Navy, Public Works Center (PWC) Norfolk	Housing Maintenance	Individual contracts replaced by 1 regional contract.	Regionalization of housing maintenance functions.
Air Force Material Command (AFMC) Electronic Systems Center (ESC), Hanscom AFB	SABER	Numerous individual contracts for minor construction jobs replaced by a single competitively established IDIQ contract originally awarded to 8(a) firm.	Work simplification and reduced cycle time. Reductions in work force. Budget execution at end of fiscal year. Improved customer service.
AFMC Space and Missile Systems Center (SMC), Los Angeles AFB	NIC	Portions of up to 15 contracts for worldwide satellite control network. At least 7 firms (including 2 small businesses) were affected by NIC consolidation to 1 integration contract.	SMC program management desire to deal with a single contractor responsible for satellite control network integration.
Air Force Space Command (AFSPC) 50th Space Wing Schriever AFB	Wing Communications	4 separate contracts for communications O&M support replaced by a single contract with a large business.	BRAC decision. Desire to streamline operations and maintenance services. Desire to reduce contract overhead costs and reduce manning requirements for contract administration.
Defense Logistics Agency, Defense Supply Center Columbus	IDPO	Quarterly purchases combined into a single annual IDIQ purchase.	Work simplification and reduced cycle time to cope with work-force reductions.

IMPLEMENTING THE CONSOLIDATION

Once the decision to consolidate is made, a number of procedural steps have to be taken to implement it. These required steps and the approaches taken in the cases reviewed addressed several subjects, including determining how the requirements for the consolidated acquisition were stated, what particular contractual vehicles were chosen to carry out the transition, what methods of acquisition were selected, and several other related issues concerning special provisions for, or responses to, small-business-unique circumstances. How the buying activities in the cases reviewed accomplished these steps is discussed next.

Restructuring Requirements

We observed a number of varying approaches to creating a new scope of work. In some cases, the underlying requirement for the acquisition was restated along functional lines in a manner and/or format different from that used before the consolidation. For example, in the case of the Network Integration Contract (NIC), a new requirement was created to have a single contractor assume overall responsibility for integration. In the preconsolidation environment, responsibility for integration had been fragmented among 15 other contractors.

Other consolidations arose when the requirements were restructured to call for performance covering a larger geographic area of responsibility. This was the case, for example, in the Training Range, Housing Maintenance, and Wing Communications contracts. Thus, while the nature of the work to be performed was not significantly altered, the consolidated contract called for that work to be performed over a wider geographic area than had previously been the case.

In still other cases, the requirements were restructured to cover longer periods of performance, either as part of the basic period of performance or over a period that could be extended through the use of options exercisable unilaterally by the government.

In some cases, underlying organizational changes forced reconsideration of the structure of the requirements because the activity or function previously being supported was no longer in existence or because a new organization was being put in place and its needs differed from those that had previously been provided for in earlier contracts.

In any event, the first response to a consolidation decision was usually a reconsideration and recasting of the underlying requirements in a manner that would permit better support of the needs of the acquiring activity.

Selecting the Contract Vehicle

In 6 of the 10 cases reviewed, the contract vehicle used to accomplish the consolidation was an IDIQ contract under which individual delivery orders or purchase orders would be used to address individual user requirements. That selection reflects a trend begun by the acquisition reforms under the Federal Acquisition Streamlining Act (FASA) of 1994 and the Federal Acquisition Reform Act (Clinger-Cohen Act) of 1996 to devise and adopt more responsive, more flexible, and more easily administered contractual vehicles for acquiring ongoing needs for a variety of users. In the four other cases reviewed, the scope, size, and potential duration (including optional periods of performance) of the consolidation contracts exceeded those of the preconsolidation acquisition mechanisms.

Acquisition Methods

A variety of acquisition methods were used in the consolidation acquisitions. Several were competed using unrestricted full and open competition, including one case that used this unrestricted method under the auspices of the legislatively authorized Small Business Competitiveness Demonstration Program. Some of the consolidated acquisitions for specific services or products were reserved either for 8(a) program participants or for small businesses. In other cases, under multiple-award schedule acquisitions, reservations were made to ensure that some of the eventual holders of the consolidated contracts would be small or small disadvantaged businesses. These types of special accommodations were intended to preserve the participation of small or small disadvantaged businesses at the prime contractor level when the preconsolidation state had included participation by such businesses. In one case (the IDPO case at Defense Supply Center Columbus), consolidation was deliberately limited to the simplified acquisition procedures threshold (i.e., no individual order would exceed the $100,000 limit), and the totality of the acquisition was preserved for the exclusive participation of small businesses.

Special Considerations

In several cases not using set-asides or reservations to protect small business participation at the prime level, other special small business considerations were employed. For example, in two cases, SBA's Procurement Center Representative negotiated aggressive subcontracting goals to offset the displacement of small businesses as primes. The small business subcontracting goal was set at 25 percent for the first case and 10 percent for the second. Both cases used a more assertive approach than usual as the basis for computing percentage goals—by basing the percentages on the total contract value rather than on the prime contractors' planned subcontracting expenditures.[3]

In one of those two cases, an award-fee plan was negotiated with the prime contractor. That plan includes success in meeting small business and 8(a) subcontracting goals as one of the criteria for determining overall program management success.

In three cases (the NIC, and the Wing Communications and Housing Maintenance contracts), the prime offeror's past performance with regard to using small businesses as subcontractors was considered as an evaluation factor in source selection.

[3] Federal regulations require that goals for using small business concerns, small disadvantaged business concerns, ad women-owned small business concerns as subcontractors be expressed in terms of percentages of total planned subcontracting dollars.

POSTCONSOLIDATION ENVIRONMENT

Before consolidation, small businesses were involved as prime contractors in 9 of the 10 contracts—and even in the tenth case (the Training Range), an 8(a) contractor performed bomb-scoring services as a prime contractor at Fallon Naval Air Station. Therefore, small businesses served as primes in essentially all cases. Following consolidation, small businesses ended up as prime contractors in 5 of the 10 cases. So in terms of prime contracts, small businesses received fewer contracts.[4]

As a result of consolidation, fewer contractors—large and small—were awarded contracts, and these contracts were larger and generally longer in term. For example, the short-term, routine construction requirements now covered by the JOC contract were performed by a number of businesses prior to consolidation. After consolidation, only one small business received that work, for a three-year period. The Focused Sustainment contract has a potential 10-year period of performance that could limit future competition for the next decade solely to the multiple awardees.

As shown in Table 3-3, the SABER, JOC, and IDPO contracts were all performed by small businesses prior to consolidation. After consolidation, small businesses still provided the services and products. The JOC contract has since been recompeted, with a large business winning the re-competition.

The Training Range contract retained an 8(a) break-out, consolidating only that portion of the work performed by large businesses.

The requirements consolidated in the Housing Maintenance, Wing Communications, FMS Support, and NIC contracts were all previously provided by both large and small businesses. Following consolidation, only large businesses received awards. Three of the contracts—Wing Communications, FMS Support, and the NIC—meet the SBA definition of a bundled contract. Two of those—Wing Communications and the NIC—also meet the definition of substantial bundling. (See Appendix A for definitions of consolidation, bundling, and substantial bundling.)

The requirements consolidated in the Focused Sustainment and DSA Omnibus programs were also previously provided by both large and small businesses; following consolidation, small businesses were still participating as prime contractors.

[4] Standard Form (SF) 294, the primary data collection form for subcontracting, does not document the number of small businesses involved in subcontracting.

Table 3-3. Comparison of the Types of Business Awarded Contracts Before and After Consolidation

Program	Before consolidation, contract awarded to	After consolidation, contract awarded to	After consolidation, subcontract awarded to
SABER	SB	SB	N.A.[a]
JOC	SB	SB (recompeted award to LB)	N.A.[a]
IDPO	SB	SB	N.A.[a]
Training Range	LB	LB	SB & LB
Housing Maintenance	SB & LB	LB	SB & LB
Wing Communications	SB & LB	LB	SB & LB
FMS Support	SB & LB	LB	SB & LB
NIC	SB & LB	LB	SB & LB
Focused Sustainment	SB & LB	SB & LB	SB & LB
DSA Omnibus	SB & LB	SB & LB	SB & LB

Note: SB = small business; LB = large business; N.A. = information not available.

[a] Federal regulations do not require subcontracting plans from small business prime contractors.

In 8 of the 10 cases, the number of prime contractor opportunities fell from multiple prime contractors to 1. A major impetus for contract consolidation, as put by one program manger, is “to have one belly button to push.” The two exceptions in our study, where prime contracting opportunities did not change significantly, are the contracts for the Army’s Focused Sustainment and DSA Omnibus programs at TACOM. Both programs issued multiple-award IDIQ contracts and used set-asides to protect small businesses.

Two of the 10 cases and a possible third were determined to be bundled contracts. In each case, the acquiring organization deemed the requirements “unsuitable” for award to small businesses. These cases are described below.

The NIC consolidated portions of up to 15 contracts along functional lines into a single larger contract today valued at $64 million. The contract provides for systems integration for the Air Force’s Satellite Control Network.

The NIC consolidation displaced two small businesses. Efforts were made to mitigate the small business displacement by negotiating an aggressive subcontracting plan of 10 percent of the contract’s total value.

The Wing Communications contract will consolidate four contracts into a single larger contract over a several-year period. Wing Communications will provide for operations and maintenance services for communication systems at three geographically dispersed locations,

- Schriever AFB, CO;
- Onizuka Air Station, CA; and
- New Boston Air Station, NH.

After the phase-in period, this contract will have a potential value of approximately $71 million, including options. The work's scope, the contract's aggregate dollar amount, and the geographical dispersion of the work sites make the consolidated contract unsuitable for award to a small business. The consolidation displaces two small businesses. Efforts made to mitigate the reduction of opportunities for small businesses include evaluation factors measuring past performance in using small business, the negotiation of aggressive subcontracting goals, and provision for a portion of the award-fee pool to depend on exceeding small business goals.

As a result of the BRAC action that sent SPAWAR to San Diego, SPAWAR decided to reorganize its Foreign Military Sales (FMS) operations. Before the move, four program offices had an FMS component and a support contract for FMS-related services. After the move, SPAWAR had one FMS program office with four contracts. The SPAWAR FMS program office decided that its new needs were not being met by the four contractors; the varying categories and rates charged created confusion; and the program office needed a single point of contact. Therefore, the four contracts for FMS support were consolidated into a single, larger contract valued at approximately $1.4 million. That contract appears to be bundled, since it may be unsuitable for award to small businesses because of the specialized nature of FMS support services. The award of the consolidated contract displaced one 8(a) small business. However, three of the four previous incumbents, including the 8(a) firm, were included on the team awarded some of the consolidated contract requirements. The total dollars to the 8(a) contractor increased from approximately $80,000 to over $200,000. Also, women-owned small businesses have been used for office support.

Chapter 4
Policy and Process Findings

This chapter addresses those findings related to the policies and processes that affect contract consolidation and bundling—the issue of the required benefit analysis, the application of the statutory and policy definitions to the cases, the impact on competition, and the oversight of the subcontracting goals, as well as mixed policy signals.

BENEFIT ANALYSIS REQUIREMENT

The Small Business Act (as amended by the Small Business Reauthorization Act of 1997) and Deputy Secretary John White's October 1996 policy memorandum on contract consolidation both require that the contracting officer assess the benefits when a consolidation is contemplated. The memorandum specifically requires that "[r]equirements shall be packaged so as not to preclude performance by small, small disadvantaged, and women-owned small business concerns as prime contractors unless the consolidation will result in *significant benefits in terms of reduced life cycle costs, improved services, or both*. Any such determination shall be supported by *market research analysis*." The memorandum also states: "…the contracting officer *shall conduct an analysis to determine if consolidation provides significant benefits*." (Italics supplied).

We found, however, only limited awareness of this memorandum or of any other policy documents that call for a benefit analysis, such as the 1994 Assistant Secretary of the Navy policy letter on the subject. Most of the people we interviewed were not familiar with the contents of either policy document, although some acknowledged awareness of the memorandum's existence.

An exception was the Headquarters Air Force Space Command (AFSPC), which instituted a "Report on Plans to Consolidate or Bundle Contracts Held by Small Business" on November 9, 1999. The purpose of that report is to make the command's Director of Small Business aware of planned consolidations or bundling in the early stages so that the Director can take action to protect small businesses. The report requires "AFSPC contracting officers to report any plans to consolidate or bundle contracts when small businesses are involved." It also requires a "one time catch up" for any consolidations or bundling started or completed during FY99. Reporting is not required for consolidations using simplified acquisition procedures, which apply below $100,000. The report is currently documented in the AFSPC Federal Acquisition Regulation (FAR) Supplement Part 5307.

Whether before or after consolidation, we found no documentation indicating that a benefit analysis had been performed for any of the 10 contract consolidations. The expectation of benefits and savings was based largely on intuition. Most contracting organizations expected that administrative savings would result from the reduction in the number of prime contractors. In addition, most contracting organizations believe that a primary benefit of contract consolidation is better customer service.

We were also unable to find any consistent methodology for measuring savings and benefits from contract consolidations. The people from most contracting organizations interviewed spoke in intuitive terms of administrative savings and cycle-time reductions, but few mentioned price savings or cost reductions, quality improvements, or better terms and conditions resulting from consolidations.

APPLYING THE STATUTORY AND POLICY DEFINITIONS TO THE CASES

The terms "consolidation," "bundling," and "substantial bundling" have been given specific meanings through statute, regulation, or policy letters. In this section, we apply the definitions to the various cases.

Consolidation Definition

Consolidated contracts are defined in the 1996 DoD memorandum as the "… consolidation of several contracts or requirements into a single larger contract…." Therefore, a consolidated contract must meet two criteria. It must

- be consolidated from several contracts or requirements and
- result in one contract.

Eight of the contracts examined meet both criteria. For example, the Housing Maintenance contract combined three housing maintenance contracts into a single, larger contract. The NIC consolidated portions of the requirements from at least 5 and perhaps as many as 15 contracts into a single contract for network integration. The Training Range contract issued by Fleet Industrial Supply Center (FISC) San Diego was created by integrating the separate operation and maintenance contracts for the tactical training ranges at Fallon Naval Air Station and Marine Corps Air Station Yuma. As a result of the combination of those contracts into a single, larger contract, the Training Range contract was a consolidation under the terms of the 1996 DoD memorandum.

Two of the 10 contracts, however, did not meet the test's second criterion. While the DSA Omnibus and Focused Sustainment programs involved consolidating several contracts or requirements, neither resulted in the award of a *single* contract. Both contracts were multiple-award contracts and therefore were not "consolidated contracts" under the terms specified in the 1996 DoD memorandum.

Bundling Definition

The definition of a bundled contract[1] under the Small Business Act (as amended)[2] is more complex. A bundled contract

- consolidates two or more procurement requirements,
- involves a previous contract performed by small business,
- results in a solicitation for one contract, and
- is unsuitable for award to a small business.

Only two contracts and possibly a third were found to meet this definition of a bundled contract. They are:

Number	Name
F04701-96-C-0028	Satellite Control Network Integration Contract (NIC)
FA2550-98-C-0007	Wing Communications
N0039-99-C-3145	FMS Support Services

In order to reach this conclusion, we compared the 10 contracts with the definition of a bundled contract. First, all 10 consolidated two or more procurement requirements, meeting the definition's first criterion. Only one—the Training Range contract—failed to meet the second criterion. (The incumbent on both of the previous, smaller contracts for the training ranges was a large business, while the nine other cases involved small business primes.) The DSA Omnibus Program and the Focused Sustainment Program contracts involved multiple awards and consequently did not meet the third criterion—a single contract. All three of the bundled contracts resulted in a solicitation for one larger contract.

In order to meet the fourth and final criterion, an award to a small business must be unsuitable because of

- the diversity, size, or specialized nature of the elements of the performance specified;

[1] The legislation states that a "bundled contract" is composed of "separate smaller contracts." "15 U.S.C. §632(o)(3) Separate smaller contract—The term 'separate smaller contract,' with respect to a bundling of contract requirements, means a contract that has been performed by one or more small business concerns or was suitable for award to one or more small business concerns."

[2] The definition of a bundled contract, found in the Small Business Reauthorization Act, was codified in the Small Business Act chapter of Title 15 of the United States Code.

- the aggregate dollar value of the anticipated award;
- the geographical dispersion of the contract performance sites; or
- any combination of the above factors.

The Housing Maintenance contract, as an example, was suitable for award to a small business and therefore does not represent a bundled contract. We base this finding upon the following rationale: The incumbent on two of the three consolidated contracts was an 8(a) contractor, and that contractor was in the competitive range.[3] Therefore, since a small business had effectively performed most of the work called for and had submitted a proposal that was among the most highly rated proposals, none of the criteria for determining that the requirement is unsuitable for award to small business had been met. Specifically, neither diversity, size, nor any specialized nature of the work was an impediment to making award to a small business. Nor was the aggregate size of the award. Finally, the local regionalization did not provide a geographical impediment to performance by a small business. Therefore, the Housing Maintenance contract was not a bundled contract.

However, the NIC and the Wing Communications contract did meet the statutory definition of bundling. The specialized nature of the services to be performed (highly technical satellite network integration services) under the NIC, as well as the award's aggregate size ($88.6 million), and the fact that worldwide services were called for, all made this contract unsuitable for a award to a small business. Similarly, geographical dispersion of the areas covered by Wing Communications and the contract's size ($71 million) meant that it was unsuitable for award to a small business.

According to the interviews, the specialized nature of FMS technical and financial management support services leads to their generally being performed only in the Washington, DC, area. The unique nature of those services arguably requires listing the FMS Support contract as a bundled contract.

Substantial Bundling

Substantial bundling adds a further criterion to those used for determining whether a contract is bundled: an award whose average annual value is $10 million or more is considered "substantial." Among the bundled contracts, the NIC ($65 million over 5 years, or $13 million per year average) and the Wing Communications contract ($71 million over 5 years, or $14 million on average) meet this definition.

[3] "FAR 15.306(c) Competitive range. (1) Agencies shall evaluate all proposals in accordance with 15.305(a), and, if discussions are to be conducted, establish the competitive range. Based on the ratings of each proposal against all evaluation criteria, the contracting officer shall establish a competitive range comprised of all of the most highly rated proposals, unless the range is further reduced for purposes of efficiency pursuant to paragraph (c)(2) of this section."

Summary of Rationales

Table 4-1 provides the rationale for stating whether or not a contract is bundled.

Table 4-1. Rationale for Labeling a Contract Bundled

Name	Bundled?	Reason
Focused Sustainment Program	No	Not a single contract.
DSA Omnibus Program	No	Not a single contract.
JOC	No	This contract resulted from a re-competition of a previously consolidated contract awarded to a small business; therefore, not unsuitable for award.
Training Range	No	Not previously performed by small businesses; 8(a) effort not included in consolidated contract.
FMS Support	Yes	Separate contracts previously performed by small business; solicitation for single large contract for services of a uniquely specialized nature unsuitable for award to small businesses.
Housing Maintenance	No	Small business in competitive range; therefore, by definition, not unsuitable for award.
SABER	No	Award was to a small business; therefore not unsuitable for award to a small business.
NIC	Yes Substantial	Separate contracts previously performed by small businesses; solicitation for single large contract was vast in scope, nature, and geographical dispersion, so that it was unsuitable for award to small businesses. $13 million average per year.
Wing Communications	Yes Substantial	Separate contracts previously performed by small businesses; solicitation for single large contract covered widely dispersed geographic area so that it was unsuitable for award to small businesses. $14 million average per year.
IDPO	No	Award was to a small business; therefore not unsuitable for award to a small business.

IMPACT ON COMPETITION

The Competition in Contracting Act (CICA) requires full and open competition and clearly states that solicitations may contain restrictive provisions and conditions only to the extent necessary to satisfy the needs of the agency, or as authorized by law.[4] While the General Accounting Office has found in some instances that bundling can violate CICA, we were not in a position to make such a statement with respect to the cases we examined. However, since the consolidated

[4] 10 U.S.C. § 2305(a)(1)(B)(ii); 41 U.S.C. § 253a(a)(2)(B).

contracts run longer and encompass a greater scope, competition is reduced in terms of frequency and the number of opportunities. Regarding the multiple-award schedule contracts, a limited competition will continue within each of the IDIQ contracts associated with the DSA Omnibus and Focused Sustainment programs; such contracts are deemed competitive as long as several offers are solicited for each order under the contract.

In two of the three bundled contracts, no small businesses attempted to compete. We can only speculate about possible reasons for their lack of participation. In the case of the Wing Communications contract, the Air Force ultimately determined that it was not appropriate for either a small business or 8(a) set-aside. The Wing Communications requirements were synopsized in the *Commerce Business Daily's* Web site. The Air Force received capability statements from a number of both large and small businesses. The Air Force, however, concluded that small businesses "lacked the necessary capability to perform the substantial requirement for operation and maintenance of satellite terminals and the associated systems." The size ($71 million) and geographical dispersion of the work for this contract could have been a factor discouraging small business competitors.

In another contract, small businesses interested in performing the NIC were informed that there would be no small business set-aside, because they could not meet the requirements imposed by the contract's "Limitations on Subcontracting" clause. It is apparent from the Air Force's response to the SBA's appeal of its decision that the Air Force implicitly assumed that the acquisition was inherently unsuitable for award to a small business. While the Air Force did not actively discourage prime contract offers from small businesses, those small businesses may have interpreted the response to the SBA appeal in a negative manner.

OVERSIGHT OF SUBCONTRACTING GOALS

We found oversight of subcontracting plans to be weak and the results difficult to validate. We also found that after receipt of the Standard Form (SF) 294 (Subcontracting Report for Individual Contracts) by the government, too little attention was paid to whether the form had been completed properly, and whether the prime contractors are on track to achieve their goals.

For one bundled contract, the contracting officer, with help from the SADBU specialist and SBA's Procurement Center Representative, negotiated an aggressive subcontracting goal of 25 percent of the contract value. The most recent SF-294, for the period ending March 31, 2000 (2 years into the contract), shows that the prime contractor has achieved only 12.4 percent against its 25 percent goal for small business subcontracting. This contractor is meeting the goal for small women-owned businesses (with a year-to-date actual of 8.0 percent versus a 5.0 percent goal) but is behind on its 5 percent small disadvantaged business goal, achieving 2.7 percent. An award-fee plan providing the contractor incentive to meet the subcontracting plan goals has had little impact.[5]

In another case, it is not clear whether the results represent awards or actual dollars received by small businesses. In this same case, the actual achievements on the SF-294 did not match the goals set forth in the contract. In still another case, ownership of the oversight role for a subcontracting plan could not be readily determined. Moreover, the erroneous completion of some SF-294s went undetected by the government.[6]

MIXED STATUTORY SIGNALS

In many interviews we were told that personnel were subject to conflicting direction emanating from statutory requirements. For example, the Small Business Act[7] specifically prohibits the bundling of contracts unless certain conditions are met. However, since the mid-1990s, acquisition reform initiatives have required DoD and other agencies to strive for administrative savings and to pursue prudent business practices through various methods. For instance, among the reforms, FASA has spurred agencies to use competitive IDIQ contracts. FASA implicitly encourages consolidation of smaller (and shorter-term) contracts. Consequently, competition may be limited in terms of fewer actions taken (i.e., fewer separate contracts awarded) and actions that occur less frequently (i.e., longer contract terms.)

Section 352 of the National Defense Authorization Act for Fiscal Year 1996 directs DoD to implement a system under which consumables—food, clothing, and medical, pharmaceutical, automotive, electrical, fuel, and construction supplies—will be delivered directly from the vendor to the military installation. The intent was to eliminate the expense of maintaining extensive warehouses. This section fostered the DLA's Prime Vendor program—a series of consolidated contracts.

Consequently, the statutory framework encourages consolidation in some instances while at the same time limiting its use.

[5] Subcontracting is one of several subcategories under program management in this award-fee plan. Program management has a weight of 30 percent, while mission support has a weight of 70 percent. Evaluation of contractor success in meeting the subcontracting goals is "subjective" under the award-fee plan. Maximizing subcontracting with small businesses, small disadvantaged businesses, and women-owned businesses would warrant an "Excellent" rating.

[6] The contracting officer has oversight responsibility for monitoring, evaluating, and documenting contractor performance under the subcontracting plan (FAR 19.706). In some instances, subcontracting plan oversight is delegated to the Defense Contract Management Command (DCMC). The contracting officer, however, remains responsible for taking action when a contractor falls behind on its goals and for reviewing SF-294s to ensure that they are completed properly. If a good-faith effort is not made, the PCO may assess liquidated damages (FAR 19.705-7) if incorporated in the prime contract.

[7] 15 U.S.C. §632 et seq.

CONCLUSION

To sum up, we found a general lack of awareness among DoD acquisition personnel regarding policy direction on consolidation and bundling. Nor did we find a consistent method or guidelines for performing benefit analyses (as required by policy) to support consolidation decisions. Uniform guidelines are indispensable to ensure a consistent approach across DoD for conducting such analyses. Instituting a DoD-wide early warning system similar to AFSPC's report on planned consolidations and bundling would raise the consciousness of the DoD acquisition work force with regard to bundling and consolidation.

By applying the statutory and policy definitions of contract consolidation and bundling, we found that 8 of the 10 contracts studied met the definition for a consolidated contract. The two that did not meet this definition are not single contracts, as described in the 1996 DoD policy memorandum. We also found that for a contract to be bundled, as three we reviewed appear to be, a small business must have "previously provided or performed" the requirements. And it must be unsuitable for award to a small business. Substantial bundling, which occurs when the average annual value of an award is $10 million or more, took place in two of the selected contracts.

Acquisition personnel appear to be attentive to the problems of small business when setting subcontracting *goals*. However, we found little attention paid to subcontracting *results* provided by way of SF-294s from prime contractors. While we did not find any violations of CICA, we did find competition reduced because consolidated contracts tend to run longer and encompass a greater scope of work. Finally, we found mixed statutory signals that on one hand encourage streamlining and contract consolidation and on the other hand discourage these practices.

Appendix A
Definitions and Usage in This Report

Every contract combines, consolidates, bundles, or packages together requirements in some manner. However, the terms *consolidation* and *bundling* have been given specific meanings through statute, regulation, or policy letters. The full texts of those definitions are found in this appendix. This report follows those specific meanings ordained by law or policy.

CONSOLIDATION

Consolidated contracts are defined in the 28 October 1996 Deputy Secretary of Defense Memorandum "Consolidation of Contract Requirements" (the 1996 Memorandum) as the "… consolidation of several contracts or requirements into a single larger contract…." Therefore, consolidated contracts must meet two criteria. They must be

- consolidated from several[1] contracts or requirements and
- result in one contract.

BUNDLING

The definition of a bundled contract is more complex. The Small Business Reauthorization Act of 1997 defined a bundled contract[2] as one that

- consolidates two or more procurement requirements,
- involves a previous contract performed by small business, [3]
- results in a solicitation for one contract, and
- is unsuitable for award to a small business.

[1] Webster's Revised Unabridged Dictionary defines "several" as "consisting of a number more than two, but not very many…."

[2] The Federal Acquisition Regulation (FAR) section 2.101 follows the statutory language.

[3] The legislation states that a "bundled contract" is composed of "separate smaller contracts." "15 U.S.C. §632 (o)(3) Separate smaller contract—The term 'separate smaller contract,' with respect to a bundling of contract requirements, means a contract that has been performed by one or more small business concerns or was suitable for award to one or more small business concerns."

The criteria exclude contracts derived exclusively from commercial activities (or A-76 studies) because their requirements were not previously provided by small businesses.

In order to meet the final criterion, an award to a small business must be unsuitable because of

- the diversity, size, or specialized nature of the elements of the performance specified;
- the aggregate dollar value of the anticipated award;
- the geographical dispersion of the contract performance sites; or
- any combination of the above factors.

SUBSTANTIAL BUNDLING

Another definition specified in the Small Business Reauthorization Act of 1997 is for “substantial bundling.” The definition of substantial bundling adds a further criterion to a bundled contract: substantial bundling occurs when a bundled contract results in an award whose average annual value is $10 million or more.

EXCLUSIONS

We excluded from our study all contracts with entities not considered large or small businesses (e.g., Federal Prison Industries, basic research firms, interagency purchases, Foreign Military Sales, nonprofit organizations/educational institutions).

Also excluded are A-76 procurements, since the A-76 process provides for a thorough review of any benefits or savings resulting from a conversion.

SUMMARY

The primary terms encountered in this report are those of bundling and consolidation, and the fundamental distinction between the two is that a bundled contract is detrimental to at least one small business while a consolidation may only negatively affect larger businesses.

Appendix B
Case Study Findings

1. ARMY CASE STUDY: FOCUSED SUSTAINMENT PROGRAM

This contract (DAAE07-98-D-T063) is one of 10 selected for the study. It is an indefinite-delivery/indefinite-quantity (IDIQ) multiple-award contract for field upgrades and maintenance of tactical vehicles at Tank-Automotive and Armaments Command (TACOM), Warren, MI.

TACOM is responsible for generating warfighting capability, sustaining warfighting readiness, and managing the Army's investment in warfighting capacity. TACOM is the integrator of 3,200 weapon systems forming the core of the Army's warfighting capability.

Preconsolidation Environment

In the preconsolidation environment, TACOM purchased vehicle maintenance services from an unknown number of firms separately at the base level.

Rationale for Consolidation

The reasons for consolidating were to provide for central oversight and configuration management of the upgrade and maintenance program.

Implementing the Consolidation

The initial acquisition plan was to use unrestricted full and open competition. Because of a concern that this might jeopardize small business participation, the Small Business Administration (SBA) Procurement Center Representative (PCR) and the Small and Disadvantaged Business Utilization (SADBU) specialist intervened to negotiate a multiple-award approach with the contracting officer. This approach includes competitive set-asides for small business and 8(a) firms. The contract period of performance is 10 years (includes a 4-year base period with two 3-year options).

Postconsolidation Environment

Six offerors—2 large businesses, 3 8(a) firms, and 1 small business—each received a multiple-award IDIQ contract. All six firms currently compete for task orders. As of August 2000, approximately 80 percent of the dollars awarded under this contract have gone to small businesses.

Small and large businesses participate as subcontractors under the prime contract.

Benefits to TACOM include more control and oversight over tactical vehicle upgrade processes, as well as reduced acquisition cycle time for task order placement. There is an estimated acquisition cycle time reduction from 25 days to 3 days.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

2. ARMY CASE STUDY: DSA OMNIBUS PROGRAM

The contract (DAAE07-99-D-S008) is an IDIQ multiple-award contract for engineering and logistics support services to be provided to program offices at TACOM.

Preconsolidation Environment

In the preconsolidation environment, TACOM issued—separately from each program office—purchase orders and contracts to an unknown number of firms.

Rationale for Consolidation

The reasons for consolidating were to provide for central oversight and control of program management tasks.

Implementing the Consolidation

The implementation of the DSA Omnibus consolidation is similar to that of the Focused Sustainment Program. The IDIQ multiple-awards approach used in this consolidation provides for a balance among contractor and (subcontractor) capabilities and includes competitive set-asides for small business and 8(a) firms. The contract period of performance is 10 years (includes a 4-year base period with two 3-year options).

Postconsolidation Environment

Four of 13 offerors were awarded contracts for the DSA Omnibus Program. One large business, 2 8(a) firms, and 1 small business each received a multiple-award IDIQ contract. All four firms currently compete for task orders.

Small and large businesses participate as subcontractors under the prime contract.

Benefits to TACOM include more control and oversight over program management and reduced cycle time for task order placement. The cycle time is estimated to be reduced to 3 days from 25 days.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

3. Army Case Study: JOC Contract

The contract (DABT11-96-D-0005) is a fixed-price IDIQ contract with provision for economic price adjustment and two one-year options. It is part of the Army's Job Order Contracting (JOC) program. It is an alternative contracting method to fulfill requirements for real property maintenance and repair and for minor construction projects with an estimated value between $2,000 and $500,000.[1]

The purpose of the JOC program is to expedite contract award of civil engineering requirements by reducing civil engineer design work and acquisition lead-time. The JOC program makes available a tool for a quick response for minor construction and maintenance repair projects.

For the study, LMI reviewed a 3-year JOC contract at Fort Gordon, Georgia, calling for minor construction projects there. The contract value is $7.5 million.

Fort Gordon's personnel provides logistical and community services for the installation's day-to-day operation. The garrison is responsible for Fort Gordon's infrastructure—buildings, roads, grounds, utilities, and communications—and vital community services—housing management, food service, security and law enforcement, fire prevention and protection, and safety.

Preconsolidation Environment

Fort Gordon awarded its first JOC contract to a small business in 1992. The contracting file reveals task order awards totaling at least $6 million to a small business from 1992 through 1995.

Rationale for Consolidation

The rationale for this consolidation per Army regulations is to improve customer service and responsiveness by reducing the civil engineer design work and acquisition lead-time. Another reason was to meet end-of-year budget execution objectives.

[1] See AFARS Subpart 17.9000 for details on the JOC program.

Implementing the Consolidation

The Army used unrestricted full and open competition to select the second JOC contractor.

Postconsolidation Environment

The second JOC contract, competitively awarded to a large business in 1996, had a contract value of $7.5 million. The contractor exceeded its overall subcontracting goal of 87 percent—achieving a cumulative 98 percent participation rate for small businesses. However, we found inconsistencies between the subcontracting plan and the actual results reported on the SF-294. For instance, the subcontracting plan reveals percentage goals for several categories of small businesses (e.g., Javits-Wagner-O'Day Act Contracts, Women Owned Small Businesses, Small Disadvantaged Businesses). The SF-294 merely shows overall results for small business; there are no results for the subcategories of small business, making it impossible to determine the prime contractor's achievement of these goals.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

The follow-on contract, the third JOC contract at Fort Gordon, was awarded competitively in 1999 to a large business.

4. Navy Case Study: Training Ranges

This contract (N00244-99-C-0008) is a definitive contract for operation and maintenance services for the tactical training ranges at Marine Corps Air Station Yuma and Fallon Naval Air Station. The contract's value at award was approximately $88 million.

Preconsolidation Environment

Essentially the same operation and maintenance services at both the Yuma and Fallon ranges were performed by large businesses. In fact, as a result of consolidation within the defense industry, the same contractor (though different divisions) performed the services—the Fallon contract was originally performed by Ford Aerospace,which was subsequently acquired by Loral; this segment of Loral was then acquired by Lockheed Martin. At that time, Lockheed also held the Yuma contract. The same contracting office (Fleet Industrial Supply Center [FISC] San Diego—Seal Beach detachment) handled the two contracts for the same requiring activity (Naval Warfare Assessment Station, or NWAS).

As a result of the historical development of the tactical training range at Fallon, bomb scoring at Fallon was performed by an 8(a) program contractor. At Yuma, bomb scoring was an integral part of the operation and maintenance contract.

Rationale for Consolidation

An August 1997 e-mail, provided by the requiring activity, listed the benefits expected to be derived from consolidating contracts for the two West Coast tactical training ranges as follows:

- Each location can man for "normal" range operating activity and draw technical support from the other during periods of heavy use. At Fallon, the contractor previously provided full-time manning for all systems and equipment on the range even though full manning is normally required only during airwing deployments.
- A single contract provides the opportunity to use shared resources such as engineering and integration personnel, spare parts, and other specialized functions.
- Competing one contract every 5 years versus every 2 years would be less costly.
- Under a single contract, the contracting officer's representative (COR) function could be established at NWAS Corona. NWAS site managers were designated as technical assistants to the COR. The site managers would then be relieved of numerous administrative duties (e.g., voucher approval) while continuing to provide technical guidance on-site.
- Consolidation assures cooperation between the contractors at both West Coast tactical training ranges.

Implementing the Consolidation

NWAS combined both Yuma and Fallon tactical training range contracts into a consolidated contract. After consulting with the Navy's SADBU office, NWAS decided to leave the bombing scoring function at Fallon within the 8(a) program and not consolidate that portion of the Fallon work in the consolidation. Additionally, the solicitation contained a weighted evaluation factor (5 percent) dealing with the offeror's subcontracting plan.

Postconsolidation Environment

Three offers were received, and the contract was awarded to a large business. The October 1999 SF-294 contained inaccurate data (the small business concerns goal was listed as $81,118,869—the contract's total value), and no one appears to have questioned this.

The October 1998 subcontracting plan submitted by the awardee contained a 20% small business concern goal ($18,297,923), with 10 percent of that set aside for small disadvantaged business ($1,829,792) and 5 percent for women-owned businesses ($914,896). Since the SF-294 data appear inaccurate, it is not possible to determine the extent of small business participation at the subcontractor level.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

5. Navy Case Study: FMS Support

This contract (N00039-99-C-3145) is for Foreign Military Sales (FMS) technical and financial management support services at Space and Naval Warfare Systems Command, San Diego, California. The contract's value at award was approximately $1,235,000.

Preconsolidation Environment

Various program offices located in Arlington, Virginia, each contained an FMS office to support FMS operations. These FMS offices were in turn supported to varying degrees by three large businesses and one 8(a) contractor. The contracts consisted of both definitive SPAWAR contracts and orders off the GSA Federal Supply Schedules.

Business type	Amount
LB	$353,000
LB	$465,165
LB	$79,000
8 (a) firm	$83,087
Total awards	$980,252

As a result of a Base Realignment and Closure (BRAC) action, SPAWAR moved to San Diego, California. The FMS support contractors accommodated the move. Also as a result, SPAWAR FMS staffing declined from 15 FTEs to 2 occupied positions. (The FMS program office is currently staffed with approximately 10 FTEs and between 9 and 11 contractor support personnel.) The COR function is not managed by the SPAWAR FMS program office. Contract rates were not standardized, and labor types and titles were unique to each contractor. The contractors limited the crossover between individual contracts, products were inconsistent, and interface between various contractor management and FMS program offices was time-consuming and complicated.

Rationale for Consolidation

The primary driver for consolidation of contracts for FMS support services was the consolidation of FMS personnel (previously in different program offices) into one organization in 1997.

The FMS program office expected the following benefits:

- Centralized management of support contractor services.
- Reduced overhead costs and reporting.
- Standardization of costs and reporting.
- FMS-specific requirements.
- Increased ability to adapt to fluctuations in workload.
- Increased cross-training of contractor personnel.
- Direct monitoring of contractor performance and formalized feedback to the contracting officer.

The FMS office supports 143 countries.

Implementing the Consolidation

The ready availability of FMS skills and experience is limited on the West Coast as compared to the availability of similar skill and experience in the national capital area. SPAWAR conducted a market survey to determine whether any socioeconomic companies (small, disadvantaged, 8(a), or women-owned businesses) were capable of performing the entire requirement. SPAWAR determined that no such businesses were qualified to perform all of the work. Consequently, the procurement used full and open competition. The request for proposals (RFP) contained a subcontracting plan requirement. Three of the four incumbents, including the 8(a) firm, teamed to submit the only offer received by SPAWAR.

Postconsolidation Environment

Award was made to a large business. The contractor has exceeded its small business percentage goals in all areas except for women-owned small businesses. When one small business subcontractor closed its San Diego office, the prime contractor sought another small business and placed a subcontract with a small disadvantaged business for management information system support. The value of the postconsolidation prime contract was larger than the combined value of the predecessor prime contracts. This is due, at least in part, to the fact that some program specific “subsidization” had occurred when the FMS function was being performed within each program office and not on a consolidated basis.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

6. Navy Case Study: Housing Maintenance

The contract (N00187-95-D-6050) is an IDIQ contract under the Small Business Competitiveness Demonstration Program for housing maintenance services at Norfolk Naval Base (excluding Admiral’s Row), Little Creek Amphibious Base, and Naval Air Station Oceana. This contract was part of the Navy’s regionalization effort in the Tidewater area. The contract’s value at award was approximately $3,645,000.

Preconsolidation Environment

Norfolk’s Public Work Center reported to the base’s commanding officer. As a result of the Navy’s regionalization, the family housing managers were consolidated under COMNAVBASE, then CNRMA (Naval Support Activity), and then CINCLANTFLT.

Family housing maintenance was performed by three different contractors under separate contracts for Norfolk Naval Base (excluding Admiral’s Row), Little Creek Amphibious Base, and Naval Air Station Oceana. The Little Creek site was in the 8(a) program. Interestingly, a 1995 small business coordination record memorandum indicates that a list of 8(a) contractors was reviewed and that there were “no 8(a) contractors for the work.” The incumbant 8(a) contractor subsequently had its contract modified to include NOB Norfolk as well as Little Creek.

Rationale for Consolidation

The housing managers desired consistent contract vehicles with a streamlined process and a geographic coverage that mirrored the Navy’s regionalization reorganization. The effort sought to consolidate housing maintenance (initially family housing, with other housing added later) within a 75-mile radius of Norfolk Naval Base.

Implementing the Consolidation

Since the Navy used the Small Business Competitiveness Demonstration Program, the solicitation was not set aside for small businesses. The solicitation effort took almost five years to implement—it began in 1995, and a contract was not awarded until September 1999. The fifth evaluation factor was “Utilization of Small, Small Disadvantaged, and Women Owned Small Business Concerns.”

The solicitation was protested to the General Accounting Office (GAO) (on the basis of inaccurate quantities), and subsequently the Navy took corrective action to revise them. However, the revised quantities were also subsequently found by the protestor (the 8(a) incumbent) to be unrealistic, and a follow-on protest was filed with the GAO. The Navy subsequently revised its quantities again. Another small business protested the Navy requirement for audited financial statements, stating that such statements were expensive and unduly restrictive. The GAO denied the protest, stating that—since the contractor would be required to mobilize, maintain, and pay a work force adequate to maintain three separate family housing projects—the contractor's financial capability was relevant and that it was reasonable to require trustworthy and accurate financial data.

According to the interviews, the solicitation effort was hampered by changing circumstances—most of the housing areas had recently been renovated, and privatization efforts had an impact on staff decisions.

Also affecting the solicitation effort, Senator Helms sent a letter to the Navy requesting reconsideration of the regionalization initiative as it applied to a Yorktown contract held by a North Carolina constituent. The Navy did not include Yorktown in the effort. The SBA approved the effort as long as Norfolk Naval Shipyard (Portsmouth) was reserved for small business. The SBA letter also addressed Yorktown and a Navy requirement for audited financial statements.

Postconsolidation Environment

Award was made to a large business. According to the SF 294, the prime contractor exceeded the small business and women-owned small business percentage goals; however, the prime failed to meet the small disadvantaged business percentage goals.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

7. Air Force Case Study: SABER Contract

The contract (F99650-99-D-0002) is a fixed-price IDIQ contract with provision for economic price adjustment and two one-year options. It is part of the Air Force's Simplified Acquisition of Base Engineer Requirements (SABER) program.[2]

The purpose of the SABER program is to expedite contract award of civil engineering requirements by reducing civil engineer design work and acquisition leadtime. SABER provides for minor construction and maintenance repair projects.

[2] See AFFARS 5336.293—Part Appendix DD for program details.

For this study, LMI reviewed a SABER contract at Hanscom AFB, MA. The three-year contract calls for minor construction projects primarily at Hanscom. The magnitude of the construction is between $1 million and $3 million.

Hanscom AFB, home of the Air Force Materiel Command's Electronic Systems Center, is the Air Force's center for the development of command and control systems.

Preconsolidation Environment

The award of the first SABER contract at Hanscom dates back to 1987. At that time, a large business won the contract, resulting in the displacement of several small businesses. The second SABER contract award, for the years 1991 through 1996, was to a small business.

Rationale for Consolidation

The rationale for consolidating SABER requirements, per the Air Force Federal Acquisition Regulation Supplement, was to improve customer service and responsiveness by reducing the civil engineer design work and acquisition lead-time.[3]

Implementing the Consolidation

The Air Force used an 8(a) set-aside to select the contractor for the third SABER contract.

Postconsolidation Environment

The 8(a) business selected for the third SABER contract in 1996 performed contract requirements for the first three years of the contract. In 1999, the option to renew the contract was not exercised because of a pending A-76 consolidation that will significantly increase the size of this contract. If approved, the contract will more than likely be awarded to a large firm, since small businesses are not likely to meet the bonding requirements.[4]

No subcontracting data were available, since small businesses are not required by federal regulations to submit subcontracting plans.

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[3] See AFFARS 5336.293

[4] Some construction contracts require that the firm doing the work purchase a bond. Bonds guarantee the performance of a contractor, such that if the contractor is unable or unwilling to complete the contract work, the bonding company may either complete the work itself, hire a contractor to complete the work, or pay the company for which the bond has been issued. Small businesses have historically been hurt by bonding requirements because of the capital necessary to purchase bonds as a condition of work.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

8. Air Force Case Study: Network Integration Contract

The contract (F040701-96-C-0028) is an IDIQ contract for satellite network integration and engineering services in support of the Satellite and Launch Control Systems Program Office. Headquarters Space and Missile Systems Center, Los Angeles Air Force Base, California, procured this effort.

Preconsolidation Environment

The Satellite Control Network (SCN) program was established in the late 1950s when Lockheed submitted a plan for a worldwide network of ground facilities to track satellites. In 1962 the Air Force was selected to control and exercise authority over all military space hardware. The Air Force (AF) SCN is the primary command, control, and communications support capability for DoD space systems. The AF SCN, as a network of systems worldwide, performs a multitude of functions including data processing, tracking, telemetry, communications, satellite commanding, and scheduling.

The integration function was spread across functional and contracting lines in as many as 15 contracts, at least two of which were being performed by small businesses.

Rationale for Consolidation

The AF SCN is an Integrated Weapon System Management (IWSM) program managing evolutionary upgrades to the satellite control common-user ground system while sustaining that system's operational systems. The AF SCN focuses on functional requirements for the development, sustainment, and integration of the AF SCN. This strategy aligns the AF SCN contracts along functional responsibilities—Development, Integration, and Sustainment—thereby reducing duplication in contractor roles and relationships. The Network Integration Contract (NIC) was one of five major AF SCN contracts. The other four were

- the Range and Communications Development Contract (RCDC) (*a development contract),*
- the Network Operations Upgrade Contract (NOUC) (*a development contract),*
- the Command and Control Sustainment Contract (CCSC) (*a sustainment contract),* and

- the Depot Support Contract II (DSC II) (*a sustainment contract).*

The NIC contractor was to maintain interfacing relationships with the development and sustainment contractors.

According to our interviews, the Air Force Space and Missile Systems Center (SMC) has experienced a 63 percent cut in manpower since 1994 while adding requirements.

Implementing the Consolidation

The initial independent cost estimate (ICE), performed by Tecolote Research Inc., established the total estimated cost for the NIC at $265 million. The single acquisition management plan (SAMP) stated that the "Government was not precluding small business proposals for this effort; however, the complexity of this effort makes it difficult for a small business to effectively contract for leading this type of effort." It went on to state that the Air Force would emphasize "SB, SDB and WOB participation and encourage Mentor-Protégé agreements (See para. 3.1.9.5)." Paragraph 3.1.9.5 of the SAMP also states that "the SMC Commander will use various tools at his discretion to place a minimum of ten percent of the value of the AF SCN contracts at the prime or subcontract level with SB."

The SBA intervened and attempted to have the RFP set aside for small businesses, stating that three companies could meet the 50% requirement under FAR 52.219-14. The Air Force in July 1995 concluded only one small business could meet the requirement and that "establishing the NIC as a small business set-aside would be tantamount to entering into a sole-source acquisition." The Air Force in its response to the SBA PCR stated that its award fee plan would reward small business subcontracting—awarding 30 percent of the effort to small businesses would "warrant an 'Excellent' rating." In the determination to use full and open competition for the NIC solicitation, the contracting officer stated that "Due to the nature of this effort it is not possible to break the work down into smaller lots." This document stated that none of the small businesses could meet the 50% threshold.

In January of 1996, the SBA's appeal was denied by the Air Force, which stated that the $250 million effort over five years could not be met by two or more small businesses. The statement of work (SOW) was substantially updated in February of that year to eliminate redundancies and, as a result, the government's ICE was revised significantly downward to $160 million. Note that this revision to the SOW took place after the Air Force had already indicated to the SBA that it would not be a requirement that could be performed by a small business as the prime contractor.

Two proposals were subsequently received, offering prices between $80 and $100 million. Award was made to Lockheed Technical Operations Co. for approximately $72 million in May of 1996.

Postconsolidation Environment

Award of the NIC was to a large business. The subcontracting plan specified a goal that the total amount planned to be subcontracted with small business was 10 percent of the total contract value. Additionally, the September 1997 SF-294 contains an erroneous contract price of $125,898,398. The March 1998 SF-294 lists the original contract price as $35,184,249 and the revised price as $52,357,178.

The contract price varies on the SF-294s:

- The September 1997 SF-294 lists the contract price as $125,898,398.
- The March 1998 SF-294 lists the original contract price as $35,184,249 and the revised price as $52,357,178.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

9. Air Force Case Study: Wing Communications Contract

The contract (FA2550-98-C-0007) is a fixed-price incentive contract with a firm target and an award fee. The contract has four 1-year options with a potential value of $71 million. Award of this contract, known as Wing Communications, took place in 1998 at Schriever AFB, Colorado.

Schriever AFB is the home of the Air Force Space Command’s 50th Space Wing. The wing manages the worldwide Air Force Satellite Control Network (AFSCN) and controls satellite programs including the Defense Support Program, the Navstar Global Positioning System, the Defense Satellite Communications System, Nato III, and the Milstar communications satellite.

The contract has of three main parts:

1. Direct conversion of 185 military and civilian communications positions at Schriever AFB and New Boston Air Station.
2. Contracting out of 164 military and civilian communications positions at Onizuka Air Station as an indirect result of BRAC.
3. A consolidation of communication functions from existing contracts, as those contracts expire, at Schriever AFB and and Onizuka Air Station.

The contract calls for operations and maintenance (O&M) for a wide variety of communication systems and workstations at Schriever AFB Onizuka Air Station and for one work center at New Boston Air Station.

The communication systems range from base telephone and land mobile radio to the Defense Satellite Communications System and the primary and secondary nodes of the AFSCN. The work effort includes O&M for the Defense Military Satellite Communications terminals and the associated technical control and computer operations. The contract also requires local area network and administrative telephone O&M, visual information, and information management.

Preconsolidation Environment

In the preconsolidation environment, six firms provided O&M services to three geographically dispersed locations. Two of these firms were small 8(a) businesses.

SBA requested a set-aside for one of the 8(a) contractors at Onizuka Air Station providing an information management services function. Because of a BRAC action affecting Onizuka—and the consolidation of this function into the Wing Communications contract—the Air Force responded to SBA as follows:

> The Information Management Services function at Onizuka no longer is available under the requirements of FAR 19.8 or Section 8(a) of the Small Business Act.

The Air Force also determined that the Wing Communications contract was not appropriate for either a small business or an 8(a) set-aside. After the requirements were synopsized in the *Commerce Business Daily's* Web site, the Air Force received capability statements from a number of large and small businesses. Following a review of the capability statements, the Air Force concluded that

> small businesses lacked the necessary capability to perform the substantial requirement for operation and maintenance of satellite terminals and the associated systems.

Rationale for Consolidation

The rationale for this consolidation, per the Air Force's acquisition plan, was to "reduce the contract overhead costs, reducing manning requirements for contract administration, and providing continuity of services." Another stated reason for consolidating was to streamline the O&M of the 50th Space Wing communication systems.

Implementing the Consolidation

The Air Force used full and open competition to select “the most technically acceptable lowest price contractor.” Past performance in using small business as subcontractors was an evaluation factor in source selection. A subcontracting mandate—set at 25 percent of the total contract value for small business—was revised to a goal when it became known that no potential offerors could meet a mandatory requirement.

Postconsolidation Environment

A large business competitively won the award for the Wing Communications contract. The award displaced two 8(a) businesses. Small and large businesses participate as subcontractors under the prime contract. The aggressive subcontracting goal requiring 25 percent of the contract value to go to small businesses has had mixed results. Moreover, an award-fee plan providing additional incentive to meet the goal has had little impact[5]. The most recent SF-294, for the period ending March 31, 2000, shows the following results:

Contractor type	Current goals	Actual cumulative
Small business	25.0%	12.4%
Large business	NA	87.6%
Small disadvantaged business	5.0%	2.7%
Women-owned small business	5.0%	8.0%

Note: NA = not available.

The prime contractor is below its 5.0 percent small disadvantaged business goal, achieving 2.7 percent. The contractor is exceeding its small women-owned business goal. Overall, the contractor has achieved a 12.4 percent small business participation rate against the 25 percent goal.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

[5] Subcontracting is one of several subcategories under program management in this award-fee plan. Program management has a weight of 30 percent, while mission support has a weight of 70 percent. Evaluation of contractor success in meeting the subcontracting goals is “subjective” under the award-fee plan. Maximizing subcontracting with small businesses, small disadvantaged businesses, and women-owned businesses would warrant an “Excellent” rating.

10. DLA Case Study: IDPO Contract

The contract (SP074099-D-5574) is a fixed-price IDIQ contract for spare jet engine parts (tube assemblies) at the Defense Logistics Agency's (DLA's) Defense Supply Center Columbus (DSCC).

One of DLA's three inventory control points, DSCC manages almost 1.8 million different construction and electronic spare parts and accounts for more than $1.8 billion in annual sales.

The contract is in the form of an indefinite-delivery purchase order (IDPO)—a simplified acquisition purchase. IDPOs do not exceed 1 year or $100,000. A reduction in acquisition lead-time is their primary benefit.

Preconsolidation Environment

The contracting history for the jet engine tube assembly being procured under the IDPO reveals that since 1985, small business has been the sole provider of this part. Management for this part was transferred from Oklahoma City's Air Logistics Center to DSCC in 1996.

Before making the transition to an IDPO, each quarter the acquisition personnel made a buy using a series of small-dollar purchase orders and set-asides to small businesses.

Rationale for Consolidation

DSCC processes over 300,000 orders annually, and 98 percent are under $25,000. For this reason, there is tremendous pressure to reduce the acquisition lead-time and administrative cost. Hence the rationale for consolidating these requirements via an IDPO.

Another indirect factor driving the need to reduce lead-time and administrative cost is the ongoing reduction in DSCC's work force. In 1995, DSCC had approximately 4,200 personnel. Now the personnel numbers are down to 2,650 and are dropping by 4 percent per year. The work-force reduction is primarily in civil service series 1670–Equipment Specialists, 1910–Quality Assurance, 2010–Supply, and 1102–Procurement. DCSS management believes that work force reductions are forcing people to find ways to do things "faster, cheaper, and better."

Implementing the Consolidation

DSCC consolidated periodic (quarterly) requirements into annual requirements and used small business set-asides to implement the consolidation of contracts for the jet engine tube assemblies.

Postconsolidation Environment

A small business was awarded a one-year IDPO for $100,000. Actual purchases in 1999 exceeded the threshold of $100,000 by $2,000. Because the demand for this part exceeded the IDPO threshold of $100,000, the follow-on requirement was awarded to another small business using a definitive contract that resulted in lower unit pricing.

No subcontracting data were available, since small businesses are not required to submit subcontracting plans.

The estimated cycle time to place orders using the IDPO fell from 60 to 90 days to 10 to 25 days.

No documentation was available, before or after consolidation, to demonstrate performance of a benefit analysis for this contract.

Appendix C
Reasons for Contract Consolidation

In preparation for conducting individual consolidation case studies, the LMI study team searched published literature and on-line Web sites to increase its understanding of the types and sources of contract consolidation on the part of DoD buying activities. That initial research disclosed a number of forces and desired outcomes driving consolidation, including work-force reduction, infrastructure cost reduction, and a desire to improve customer support.

Additionally, in the course of determining forces and goals that provide the impetus for consolidation, it became apparent that a number of technology advances were instrumental in making contract consolidation possible. Among those technologies are the following:

- *Electronic commerce,* especially the development of electronic catalogs accessible through the Internet for locating and ordering required supplies and services, in conjunction with the use of purchase cards to pay for the ordered items.
- *Distribution and transportation techniques,* especially the ability to transport needed items from central inventories rapidly through overnight and second-day package services, to track the shipment, and to obtain a delivery receipt electronically.
- *New contracting techniques,* especially multiple-award contracting procedures that permit a selected group of suppliers to hold long-term indefinite-delivery/indefinite-quantity (IDIQ) contracts for work for a broad range of government agencies.

WORK-FORCE REDUCTIONS

In the late 1990s, Congress directed the Secretary of Defense to reduce the number of defense acquisition personnel positions by 25,000.[1] Such reductions force a search for more efficient contracting processes and for ways to reduce the number of contracts to award and administer.

[1] Public Law 105-85, Div. A, Title IX, Sect. 912, Nov. 18, 1997, Reduction of defense acquisition work force.

INFRASTRUCTURE COST REDUCTIONS

Infrastructure cost reduction goals have forced a search for more efficient contracting practices, such as regionalization of support contracts, whereby local contracts are consolidated into one regional contract.

The use of regional contracts to reduce infrastructure costs has taken several forms. One version involves base-level regionalization of functions where one Military Service is concentrated while other involves regionalization across Service lines. DoD has provided Congress examples of regionalization as follows:

> In areas of heavy concentration of installations, regionalization of base support services across commands, bases and the Services may result in costs savings. The Navy, for example, is currently in the process of regionalizing many of its own activities at its fleet concentration centers–Norfolk, San Diego, and Mayport, and the Joint Staff is looking at cross-Service regionalization in Hawaii.
>
> DoD installations in the Colorado Springs area have created a "Colorado Springs Military Installation Partnership Initiative." Under this effort, the commanders of the Air Force Academy, Fort Carson, Peterson Air Force Base, Falcon Air Force Base and Cheyenne Mountain Air Station are pursuing opportunities to partner for economies and efficiencies in eight common base support functions.[2]

A study of the Navy's attempts to reduce its infrastructure costs specifically described regionalization of support services as a source of consolidation savings, as follows:

> Regionalization is a form of consolidation. In theory, consolidation can either improve or degrade the use of resources. However, there are many reasons to expect lower costs, i.e., scale economies, scope economies, redundancy elimination, and market leverage…. Scale economies come from consolidating common workloads.… Scope economies are efficiencies gained from merging different types of work.[3]

In San Diego, the Navy established a Southwest Regional Buying Consortium for a multitude of common functions.[4] Regional facility support contracts were established for guard services, street sweeping, refuse removal, elevator maintenance, grounds maintenance, custodial services, and bio-waste removal.[5]

[2] Statement of March 18, 1998, by John B. Goodman, DUSD(IS&I), before the House National Security Committee, Subcommittee on Military Installations and Facilities.

[3] *Recapitalizing the Navy—A Strategy for Managing the Infrastructure*, Naval Studies Board, National Research Council, 1998, National Academy Press, Washington, DC, p. 18.

[4] See URL: www.cndsd.navy.mil/business/biz.htm.

[5] See URL: www.abm.rda.hq.navy.mil/rbc/sdstatus.cfm for a listing buying consortium contracts.

Another version of regional contracting is the use of purchasing arrangements with non-DoD buying activities within the same region. An example is regional contract sharing between DoD medical treatment facilities (MTFs) and the Department of Veterans Affairs (VA) Medical Centers (VAMCs). In this case, interagency purchasing requirements are consolidated through DoD participation in Veterans Integrated Service Network (VISN) contracts. Recent General Accounting Office (GAO) testimony on DoD and VA sharing of resources stated the following:

> In addition, 13 VAMCs and 33 MTFs reported that, fiscal year 1998, they had entered into one or more joint purchasing contracts—not covered by the Sharing Act—to purchase pharmaceuticals, laboratory services and supplies, medical supplies and equipment, and other types of services.[6]

IMPROVED CUSTOMER SUPPORT

The desire to improve customer support entails improving the timeliness and quality of the parts and services available to field users through long-term, large-scale partnership arrangements such as Prime Vendor (PV) contracts for the distribution of supplies, corporate contracts for original equipment or parts, and logistical support contracts for parts with weapons systems contractors. Such arrangements make extensive use of commercial direct vendor delivery (DVD) to streamline processes, reduce overall cycle time, and improve user satisfaction.

In accordance with congressional direction,[7] the Defense Logistics Agency's (DLA's) PV program has vendors use DVD techniques to supply food and clothing; medical and pharmaceutical supplies; automotive, electrical, fuel, and construction supplies; and other consumable inventory items directly to military installations throughout the United States. DLA describes PV in these words:

> Prime Vendor Programs—…prominent examples of the shift to best commercial practices. They establish contracts for long-term trading partnerships where DLA manages the relationship between customer and the vendor, rather than managing commodities. DLA's leveraged buying power allows customers to take advantage of lower prices without investing in inventories. Orders are placed via electronic ordering systems and deliveries go directly to the customer. The benefit is a shortened and tighter logistics support chain, with provisions for "surge" and sustainability" requirements. Prime Vendor ensures warfighters will have what they need, when they need it.[8]

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[6] U. S. General Accounting Office Testimony of May 17, 2000, before the Subcommittee on Health, Committee on Veterans Affairs, House of Representatives, GAO/T-HEHS-00-117.

[7] FY96 National Defense Authorization Act, Section 352*; Direct Vendor Delivery System for Consumable Inventory Items of Department of Defense*.

[8] See URL: www.dla.mil/Dimensions/Almanac/revol.htm for descriptions of the Prime Vendor initiatives.

A recent initiative applies PV contracts to maintenance, repair, and operations (MRO) supplies.[9] DLA has established regional contracts to provide nationwide coverage for MRO supplies. The program's goal is to provide items quickly to meet customer needs at discounted commercial prices. What enables PV is the convergence of electronic commerce catalogs, the Internet, and DVD techniques. Obviously, the scale and scope of such contracts offer few opportunities for the local small business distributor that traditionally supplied MRO items to the local military installation. The availability of both on-line ordering and overnight delivery of purchased items directly to the customer eliminates the advantages a small business distributor had in being near the local installation. However some installations prefer local sources, as shown in a recent GAO report on DLA's MRO PV program:

> Installation supply personnel have stated that they are reluctant to sever long-standing relationships with local merchants and encourage prime vendors to continue patronizing local businesses.[10]

Another example of how customer service is improved is the use of long-term corporate contracts. DLA describes such contracts as follows:

> Corporate Contracts…this initiative aggregates the requirements of one or more supply centers for items from a single source of supply. These long-term contracts with a single vendor eliminate sometimes-redundant contracting actions and provide the opportunity to gain access to a vendor's entire list of items for sale. The vendor uses its normal inventory practices, including storage, handling, and delivery, then when DLA has a requirement, we tap into those inventories and have the items delivered directly.[11]

A GAO report on DoD and commercial practices for buying aircraft parts and services noted that major airlines tend to use long-term contracts for acquiring spare parts and, most significantly, buy from the Original Equipment Manufacturer (OEM) and not from third parties. In the report, the GAO discussed DoD's use of long-term corporate contracts in the following words:

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[9] Deputy Secretary of Defense Memorandum, dated 24 August 1998, subject: "Department of Defense Reform Initiative Directive #45–Prime Vendor Contracting Program for Facility Maintenance Supplies."

[10] *Defense Inventory: Actions Needed to Evaluate Supply Purchase Options for Facilities Maintenance,* August 2000, GAO/NSIAD-00-194, pp. 16-17.

[11] See URL: www.dla.mil/Dimensiions/Almanac/revol.htm for a description of corporate contracts.

> DoD activities are also beginning to make use of long-term agreements to take advantage of the Department's leverage as a large customer. For example, the Defense Logistics Agency uses long-term agreements known as corporate contracts for a number of different engines and aircraft spare parts. These contracts aggregate the requirements of one or more supply centers with a single supplier of multiple items. The contracts cover not only pricing but also distribution and delivery services. They may address specific spare parts or include a manufacturer's entire commercial price list. By using these contracts, the Defense Logistics Agency expects to lower its costs, obtain better delivery times, and reduce its customer support infrastructure.[12]

A corporate contract does not directly displace small businesses, since the previous individual contracts are merely consolidated into a single contract with the original vendor. However, corporate contracting facilitates use of a single source of supply (e.g., access to the weapon systems' contractor's consolidated parts catalog or commercial price list) and thereby discourages purchases from the part's OEM identified through spare-part breakout programs.

[12] U.S. General Accounting Office, *Contract Management: A Comparison of DoD and Commercial Airline Purchasing Practices,* GAO/NSIAD-00-22, pp. 9-10, November 1999.